

ALASKA LEGISLATURE COMMITTEE FILES 1995-1996 8672

8745 HOUSE RESOURCES

Forecast: AKSUPP-REAL (cont'd)

Cell: AF149

Percentiles:

<u>Percentile</u>	<u>Value (approx.)</u>
0%	34.7
10%	41.6
20%	44.2
30%	46.1
40%	47.2
50%	48.8
60%	50.5
70%	52.1
80%	54.4
90%	56.7
100%	67.8

End of Forecast

*Northstar*



## Key Messages

- **New field development is essential to the future of Alaska's oil industry**
  - Northstar is the first such development
  - Northstar is fully offshore and will prove-up technology for other offshore developments
- **Northstar development will benefit all Alaskans**
  - New economic development and fabrication jobs
  - Potential \$1 billion into the State's economy and treasury
  - Renewed commitment to Alaska hire
- **Agreement is not an incentive or give-away**
  - Win-win agreement that unlocks the value to Alaska and BP
  - Fully aligns the interests of Alaska and BP
  - Provides certainty to the State that Northstar will be developed ASAP

*Northstar*



## Benefits to Alaska

- **Certainty of near term Northstar development**
  - Significant expenditures beginning in 1997; production in 1999
- **Economic development and jobs with Alaska fabrication**
- **First fully offshore development; technology**
- **Highest State revenue per barrel**
- **Potential \$1 bn into State economy and State treasury**
  - \$200+ mm capex; \$200+ mm opex; \$550+ mm State revenue
- **Supplemental royalty estimated value of \$37-65 mm**
- **Clear signal that the State and industry will work together to encourage development**

*Northstar*



## **Alaska Fabrication**

- **New jobs and economic development of Alaska's support industry**
- **Potentially 75% of facilities could be fabricated in Alaska involving:**
  - **Increase number and complexity of modules fabricated at existing yards in Anchorage**
  - **Assembly of two meg-modules at Port of Anchorage for sea lift to Northstar**
  - **Requires commitment to Port assembly yard by mid-year 1996**

*Northstar*



## Settlement Agreement

- **NPSL terms removed from State leases**
- **Base State royalty of 20% remains unchanged**
  - Highest of any Alaska field
- **Northstar will pay a Supplemental Royalty (SR)**
  - Proxy for a profits based tax
- **BP must sanction Northstar within 12 months or drop leases**
- **BP commitment to Alaska build and Alaska hire**

ALASKA STATE LEGISLATURE  
HOUSE BILL NO. 548

HISTORY IN THE HOUSE

HISTORY IN THE SENATE

1996  
3/28  
4/24  
4/26

Read first time and referred to:  
RES FIN

---

WTR re-added: RES WTR FIN

---

RES RPT φ CS(RES)  New Title  
φ DP φ DNP 3 NR 3 AM  
       FN        OFN 1 Previous FN

---

       RPT        CS(        )        New Title  
       DP        DNP        NR        AM  
       FN        OFN        Previous FN

---

       RPT        CS(        )        New Title  
       DP        DNP        NR        AM  
       FN        OFN        Previous FN

Read second time  
CS(        ) Adopted

Amended

Advanced

Read third time

Return to second for specific amendment

PASSED                      EFD Same        or  
Yeas                              Yeas  
Nays                              Nays  
Excused                        Excused  
Absent                            Absent

       Intent adopted

Reconsideration  
Reconsideration not taken up

PASSED ON RECON.      EFD Same        or  
Yeas                              Yeas  
Nays                              Nays  
Excused                        Excused  
Absent                            Absent

       Intent adopted

Reported correctly engrossed  
Signed by Speaker, to the Senate

---

Chief Clerk of the House

19

Read first time and referred to:

---

       RPT(        ) CS        DP        NR        DNP        AM  
       New Title        Same Title        Previous FN  
       FN        OFN        To       

---

       RPT(        ) CS        DP        NR        DNP        AM  
       New Title        Same Title        Previous FN  
       FN        OFN        To       

---

       RPT(        ) CS        DP        NR        DNP        AM  
       New Title        Same Title        Previous FN  
       FN        OFN        To       

---

       Rules Calendar(        ) CS        AM        Other  
       New Title        Same Title        Previous FN  
       FN        OFN        To       

Read second time

       CS Adopted (        )        New Title  
       Amended        Advanced

Read third time

       Letter of Intent adopted  
       Return to second for specific amendment

PASSED                      EFD Same        or  
Yeas                              Yeas  
Nays                              Nays  
Excused                        Excused  
Absent                            Absent

Reconsideration  
Reconsideration not taken up

PASSED                      EFD Same        or  
Yeas                              Yeas  
Nays                              Nays  
Excused                        Excused  
Absent                            Absent

Reported correctly engrossed  
Signed by President, to the House

---

Secretary of the Senate



BP EXPLORATION

M. Luttrell  
Vice President  
Exploration, Alaska

BP Exploration (Alaska) Inc.  
900 East Benson Boulevard  
P.O. Box 196612  
Anchorage, Alaska 99519-6612  
(907) 564-4892

April 5, 1996

Rep. Ramona Barnes  
Alaska State Legislature  
State Capitol Rm. 403  
Juneau, AK 99801-1182

Dear Representative Barnes,

Last Sunday the Anchorage Daily News ran an editorial on the DNR/BP Northstar contract which was both misleading and oversimplified in its analysis. I would like to set the record straight.

The negotiations between BP and the Department of Natural Resources (DNR) resulted in an agreement which is both a good deal for the state and BP. Period. The agreement maximizes the state's return, nurtures new business and creates the opportunity for new jobs for Alaskans.

That's a far cry from the News' characterization of the agreement as "a trust-me deal."

Here are the facts.

- The agreement DNR reached with BP will pump about \$1 billion into the state's economy over the next 15 years. About half will flow directly into the state treasury through the highest royalty rates of any producing field in Alaska, along with state severance tax, income tax and property tax. The state estimates that Northstar's 20 percent royalty rate will generate up to \$170 million more than the state's standard 1/8th royalty.
- The agreement contains a supplemental royalty clause pegged to the price of oil, one that would have already kicked in with today's market price. The state estimates this supplemental royalty, which could rise to as much as 27.5 percent, will add another \$37 million to the state's treasury.
- The agreement includes a strong commitment to hire Alaskan workers, a commitment BP takes very seriously. While the courts have prohibited binding Alaska hire agreements, we outlined specific actions which will help to ensure that as many of the more than 500 Northstar construction jobs, and the more than 50 direct permanent jobs, go to Alaskans. We have met with our contractors to reinforce their commitment to local hire, and we are working with the state's colleges and craft schools to make sure we have enough trained Alaska workers to fill the new jobs.

# CORRECTION

THE FOLLOWING DOCUMENT(S)  
HAVE BEEN REFILMED TO  
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services  
Department of Education  
State of Alaska

**ALASKA STATE LEGISLATURE  
HOUSE BILL NO. 548**

**HISTORY IN THE HOUSE**

**HISTORY IN THE SENATE**

1996  
3/28  
4/24  
4/26

Read first time and referred to:  
RES FIN

---

WTR re-added: RES WTR FIN

---

RES RPT CS(RES)  New Title  
 DP  DNP 3 NR 3 AM  
 FN  OFN 1 Previous FN

---

\_\_\_\_\_ RPT CS( ) \_\_\_\_\_ New Title  
 \_\_\_\_\_ DP \_\_\_\_\_ DNP \_\_\_\_\_ NR \_\_\_\_\_ AM  
 \_\_\_\_\_ FN \_\_\_\_\_ OFN \_\_\_\_\_ Previous FN

---

\_\_\_\_\_ RPT CS( ) \_\_\_\_\_ New Title  
 \_\_\_\_\_ DP \_\_\_\_\_ DNP \_\_\_\_\_ NR \_\_\_\_\_ AM  
 \_\_\_\_\_ FN \_\_\_\_\_ OFN \_\_\_\_\_ Previous FN

Read second time  
 CS( ) Adopted

Amended

Advanced

Read third time

Return to second for specific amendment

PASSED	EFD Same ___ or
Yeas	Yeas
Nays	Nays
Excused	Excused
Absent	Absent

\_\_\_\_\_ Intent adopted

Reconsideration  
 Reconsideration not taken up

PASSED ON RECON.	EFD Same ___ or
Yeas	Yeas
Nays	Nays
Excused	Excused
Absent	Absent

\_\_\_\_\_ Intent adopted

Reported correctly engrossed  
 Signed by Speaker, to the Senate

---

Chief Clerk of the House

19

Read first time and referred to:

---

\_\_\_\_\_ RPT( ) CS \_\_\_\_\_ DP \_\_\_\_\_ NR \_\_\_\_\_ DNP \_\_\_\_\_ AM  
 \_\_\_\_\_ New Title \_\_\_\_\_ Same Title \_\_\_\_\_ Previous FN  
 \_\_\_\_\_ FN \_\_\_\_\_ OFN \_\_\_\_\_ To \_\_\_\_\_

---

\_\_\_\_\_ RPT( ) CS \_\_\_\_\_ DP \_\_\_\_\_ NR \_\_\_\_\_ DNP \_\_\_\_\_ AM  
 \_\_\_\_\_ New Title \_\_\_\_\_ Same Title \_\_\_\_\_ Previous FN  
 \_\_\_\_\_ FN \_\_\_\_\_ OFN \_\_\_\_\_ To \_\_\_\_\_

---

\_\_\_\_\_ RPT( ) CS \_\_\_\_\_ DP \_\_\_\_\_ NR \_\_\_\_\_ DNP \_\_\_\_\_ AM  
 \_\_\_\_\_ New Title \_\_\_\_\_ Same Title \_\_\_\_\_ Previous FN  
 \_\_\_\_\_ FN \_\_\_\_\_ OFN \_\_\_\_\_ To \_\_\_\_\_

\_\_\_\_\_ Rules Calendar( ) CS \_\_\_\_\_ AM \_\_\_\_\_ Other  
 \_\_\_\_\_ New Title \_\_\_\_\_ Same Title \_\_\_\_\_ Previous FN  
 \_\_\_\_\_ FN \_\_\_\_\_ OFN \_\_\_\_\_

Read second time

\_\_\_\_\_ CS Adopted ( ) \_\_\_\_\_ New Title  
 \_\_\_\_\_ Amended \_\_\_\_\_ Advanced

Read third time

\_\_\_\_\_ Letter of Intent adopted  
 \_\_\_\_\_ Return to second for specific amendment

PASSED	EFD Same ___ or
Yeas	Yeas
Nays	Nays
Excused	Excused
Absent	Absent

Reconsideration  
 Reconsideration not taken up

PASSED	EFD Same ___ or
Yeas	Yeas
Nays	Nays
Excused	Excused
Absent	Absent

Reported correctly engrossed  
 Signed by President, to the House

---

Secretary of the Senate

HOUSE-SENATE HISTORY Continued

19

Received from the Senate \_\_\_\_\_

Concur in Senate amendment \_\_\_\_\_

Y \_\_\_ N \_\_\_ E \_\_\_ A \_\_\_

\_\_\_\_\_ Efd same or Y \_\_\_ N \_\_\_ E \_\_\_ A \_\_\_

Failed to concur Senate amendment, ask Senate recede \_\_\_\_\_

Y \_\_\_ N \_\_\_ E \_\_\_ A \_\_\_

Senate failed to \ receded from amendment \_\_\_\_\_

Y \_\_\_ N \_\_\_ E \_\_\_ A \_\_\_

CC appointed by House \_\_\_\_\_ Chair

CC appointed by Senate \_\_\_\_\_ Chair

(H) Granted Limited Powers of Free Conference \_\_\_\_\_

(S) Granted Limited Powers of Free Conference \_\_\_\_\_

19

(H) Adopted CC Rpt \_\_\_\_\_

Y \_\_\_ N \_\_\_ E \_\_\_ A \_\_\_

\_\_\_\_\_ Efd same or Y \_\_\_ N \_\_\_ E \_\_\_ A \_\_\_

(S) Adopted CC Rpt \_\_\_\_\_

Y \_\_\_ N \_\_\_ E \_\_\_ A \_\_\_

\_\_\_\_\_ Efd same or Y \_\_\_ N \_\_\_ E \_\_\_ A \_\_\_

To enrolling \_\_\_\_\_

Reported enrolled and sent to Governor \_\_\_\_\_

\_\_\_\_\_ By Governor

Chapter Number \_\_\_\_\_

Filed with Lieutenant Governor \_\_\_\_\_



BP EXPLORATION

M. Luttrell  
Vice President  
Exploration, Alaska

BP Exploration (Alaska) Inc.  
900 East Benson Boulevard  
P.O. Box 196612  
Anchorage, Alaska 99519-6612  
(907) 564-4892

April 5, 1996

Rep. Ramona Barnes  
Alaska State Legislature  
State Capitol Rm. 403  
Juneau, AK 99801-1182

Dear Representative Barnes,

Last Sunday the Anchorage Daily News ran an editorial on the DNR/BP Northstar contract which was both misleading and oversimplified in its analysis. I would like to set the record straight.

The negotiations between BP and the Department of Natural Resources (DNR) resulted in an agreement which is both a good deal for the state and BP. Period. The agreement maximizes the state's return, nurtures new business and creates the opportunity for new jobs for Alaskans.

That's a far cry from the News' characterization of the agreement as "a trust-me deal."

Here are the facts.

- The agreement DNR reached with BP will pump about \$1 billion into the state's economy over the next 15 years. About half will flow directly into the state treasury through the highest royalty rates of any producing field in Alaska, along with state severance tax, income tax and property tax. The state estimates that Northstar's 20 percent royalty rate will generate up to \$170 million more than the state's standard 1/8th royalty.
- The agreement contains a supplemental royalty clause pegged to the price of oil, one that would have already kicked in with today's market price. The state estimates this supplemental royalty, which could rise to as much as 27.5 percent, will add another \$37 million to the state's treasury.
- The agreement includes a strong commitment to hire Alaskan workers, a commitment BP takes very seriously. While the courts have prohibited binding Alaska hire agreements, we outlined specific actions which will help to ensure that as many of the more than 500 Northstar construction jobs, and the more than 50 direct permanent jobs, go to Alaskans. We have met with our contractors to reinforce their commitment to local hire, and we are working with the state's colleges and craft schools to make sure we have enough trained Alaska workers to fill the new jobs.

- The agreement binds BP to spend as many of Northstar's development dollars as possible right here in Alaska. This may be the most exciting portion of the agreement as it moves a part-time industry into a full-time business employing hundreds of highly skilled Alaskans to manufacture large production modules we need to bring Northstar on-line.

Let me divert for a moment.

The News raised concerns about the precedent set in retroactively changing lease terms. In fact, precedents already exist. In 1992, DNR unilaterally agreed to drop net profits terms at Thetis Island in exchange for higher royalties and immediate development. Last year the Alaska Legislature passed SB 207 giving the DNR commissioner the power to change royalty terms without legislative approval. In these two instances, changes were made or authorized which enable the state to respond to opportunities. Our economic environment is an ever-changing one which requires some measure of flexibility to remove obstacles to development, even those which at one time seemed to have merit.

You, as our state's policy makers, will hold the Northstar agreement to the most stringent of reviews, and we believe you will conclude that the agreement is in the best interests of everyone.

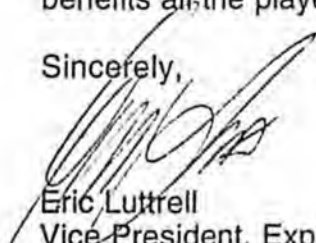
The bottom line is that Northstar will never be developed under its existing net profits terms. Its prior owners could not bring it to production, and the state's own studies show that the present net profits requirement discourages development. In fact, the state revised its net profit leasing policies following the Northstar sale.

The News suggests letting the Northstar leases expire so they can be put out to rebid, thus delaying the field's development for several years. While this is a gross oversimplification in itself, it also demonstrates a disturbing disregard for the importance of time. Oil production -- and revenues -- are declining, and the only way to temper this decline is through new development and production. BP has already invested the \$28 million needed to prove this field, and is ready to begin development next year.

The News readily admits there are no guarantees the state will get a better deal next time. In fact, all the evidence points to the contrary. A new lessee is unlikely to agree to a royalty as high as 27.5 percent, the stringent Alaska hire agreements and the commitment we made to pay a multimillion-dollar premium to help develop a promising new industry in Alaska.

The new agreement with Northstar truly sets a new course for Alaska, one that benefits all the players. We hope you will speedily approve it.

Sincerely,



Eric Luttrell  
Vice President, Exploration

*Sue Baldwin's Picnic - Healthy Wrang Assisted by*  
COOK INLET REGION, INC.

April 24, 1996

VIA FAX: (907) 465-4316

Honorable Joe Green  
Co-Chairman  
House Resources Committee  
State Capitol  
Juneau, Alaska 99801-3810

Dear Representative Green:

I am writing to you today as a follow up to my earlier testimony to the Committee and my conversations with you about House Bill 548. As you are aware, CIRI is heavily involved in the oil industry in Alaska through our own developments on the Kenai, as a working interest owner in Endicott, and through our three subsidiary companies, PEAK Oilfield Services, Construction Machinery, Inc. and Alaska Interstate Construction. So we benefit from more than our alliances and partnerships as a contractor on Alaska's North Slope.

It is our belief that HB 548, which would allow the development of Northstar, is a most vital piece of legislation. It will do more than just put hundreds of Alaskans to work and inject millions of private sector dollars into our economy. It will maintain flow in the Trans Alaska Pipeline. Clearly, the State must continue to support these smaller field developments or we will reach a point where it is uneconomic to transport oil through the pipeline. If the pipeline shuts down we can forget any future developments such as ANWR.

(1) We believe the Executive Branch is properly empowered under the Constitution to negotiate deals within a general statutory framework established by the Legislature. And while the Legislative Branch may read into the record what it believes should be or should have been included in a contract, it is bad constitutional precedent and poor practical policy for the Legislature to get into the business of rewriting or re-negotiating contracts carefully negotiated by the Executive Branch.

I fully understand the role of the Legislature in our system of checks and balances and your duty to review what the Administration is proposing in terms of lease amendments. You have made it clear that -- had you negotiated the deal -- it would have been somewhat different. But this is the agreement that was hammered out between the State of Alaska and BP Exploration and should be the only agreement on the table.

Representative Green  
April 24, 1996  
Page 2

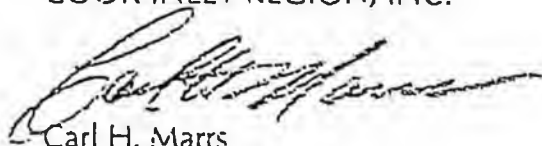
Cook Inlet Region, Inc. fully supports this negotiated agreement. For our part, we are satisfied that BP will do everything in its power to fulfill its commitments on local hire and local business participation in Northstar's development. We do not base this belief on misguided optimism, but on cold political reality. If, for any reason, BP does not live up to its commitments, they will find scarce support among Alaska businesses and public officials for any future development opportunities. Moreover, I am advised that there is a real danger, from a legal perspective, that this well-intentioned attempt to put more "teeth" into the Alaska hire and contracting provisions could amount to "throwing out the baby with the bath water." It also may substantially increase the chance that this entire piece of legislation will be ruled illegal or unconstitutional under state and federal law.

In summary, we believe BP means what they say and that the Northstar project is our best opportunity to forge a new standard for Alaskan's participation in oil development. It also sends the right message to other companies thinking about investing in Alaska. The legislature worked hard to pass HB 207 last year to send the message that Alaskans are willing to work with the industry on issues critical to the future development of Alaska's resources. This is one of those issues so let's -- as Alaskans live up to the intent of HB 207 and pass HB 548 as recieved from the Administration.

Accordingly, on behalf of Cook Inlet Region, Inc., I strongly urge you to support HB 548 as it was introduced and keep this vital legislation moving forward. Thank you.

Sincerely,

COOK INLET REGION, INC.



Carl H. Marrs  
President & CEO

CHM/bp  
2023a

cc: Representative Gail Phillips, via Facsimile: (907) 465-3472



# General Teamsters Local 959 State of Alaska

*Affiliated with the International Brotherhood of Teamsters*

ANCHORAGE, ALASKA 99501: 4200 BONIFACE PKWY. (907) 280-4122 FAX (907) 287-6033 GERALD L. MOGD Secretary/Treasurer

FAIRBANKS, ALASKA 99707, P.O. Box 70609. (907) 452-2959 FAX (907) 452-5051  
JUNEAU, ALASKA 99801: 306 Wiloughby. (907) 586-3225 FAX (907) 586-1227

April 11, 1996

Representatives Joe Green and  
Bill Williams  
Co-Chairmen, House Resource Committee  
Alaska State House  
Juneau, AK 99801

Dear Co-Chairmen and Committee Members,

I am writing to the Committee to express my deep concern with regard to the Administration's proposal on the North Star leases.

While my concerns cover a broad range of subjects, I want to confine my comments here to the issues of Alaska hire.

As you know, in my position as Chief Executive Officer for the Teamsters Union in Alaska, I have often been an advocate for the oil industry. We strongly support the environmentally sound development of our natural resources. We have been in the forefront in the fight for lifting the oil export ban, royalty relief, and the opening of ANWR for hydro carbon exploration and production.

We did so in the belief this was good for all Alaskans and would enhance benefits to the Alaska workforce. To date, what we have seen is a continuing decline of employment opportunities for Alaskan workers in the oil patch. Statistics tell us Alaskans participating in North Slope construction projects has dropped to its lowest level since the pipeline was built.

The North Star agreement before you is extremely deficient when it comes to strengthening the potential for Alaskan workers. Therefore, neither I nor my organization can support it in its present form.


We need greater assurances that Alaskans will be put to work. We need greater assurances to affirm employment opportunities are made available to rural and native Alaskans. Utilizing the employment of Alaskans not only ensures that maximum benefits accrue to the state from economic development, it also reduces demands upon the state.

April 11, 1996  
Page 2.

such as unemployment insurance and public assistance. Therefore, we urge stronger language to ensure Alaska hire is placed in HB 548 and any other oil industry bills that grant economic relief or production incentives. To not grant such assurance is an economic downfall for all Alaskans.

Respectfully,

TEAMSTERS LOCAL 959

  
Gerald L. Hood  
Secretary-Treasurer

/kk  
JH\North.2

# EVEN THE STATES

They may be devastating U.S. cities in the process

are skill and cost of labor, proximity to customers and price of real estate. Tax breaks are rarely the dealmaker. Barry Rubin, a professor of public and environmental affairs at Indiana University, notes that of a firm's variable costs—charges that come on top of fixed expenses like lease payments—state and local taxes make up at least 3%. Giveaways are likely to have little impact unless other factors are virtually equal.

But that hardly stopped the city of

**NEW YORK:** CoopCo \$20 million in tax relief, AT&T moved staff members to New Jersey

DreamWorks wasn't leaving the area—it needs the specialized talent that lives there—yet Los Angeles mayor Richard Riordan didn't want the project to go to neighboring Burbank or Universal City. Complains congressman Nate Hinkley, a Democrat who represents part of inner-city Los Angeles and was the lone dissenter when the council voted on the project: "We're being asked to help the rich. This is a bunch of fat cats getting together and giving to one another."

Other states have treated California the way the Spanish did Mexico: they have plundered it, taking more than 800 large employers between 1988 and '92. So Republican Governor Pete Wilson pushed through a package of incentives, including across-the-board tax credits aimed at high-tech manufacturers, and created so-called Red Teams of public and private officials to persuade wavering companies not to move. One payoff came last year when a Long Beach-led team assembled an \$80 million package that kept McDonnell Douglas from shifting part of the production of its new MD-11 jetliner to other states.

But California can't arbitrarily lower its cost of labor or real estate. Intel, the world's largest maker of microchips, chose Albuquerque, New Mexico, as the site for a new \$1.3 billion semiconductor plant, stuffing its own headquarters location in pricey Silicon Valley. New Mexico sweetened the deal further by giving Intel a 30-year exemption from property taxes for the plant, which

Intel says will create 3,000 jobs. The exemption formed the bulk of a 30-year, \$568 million incentive package from New Mexico that works out to nearly \$100,000 per job. (New Mexico's unemployment rate stands at 6.3%, compared with 7.6% for California.) Oregon used property-tax abatements to help land two more Intel facilities—a \$735 million plant expansion in Aloha and a new \$2.2 billion microchip factory in Hillsboro.

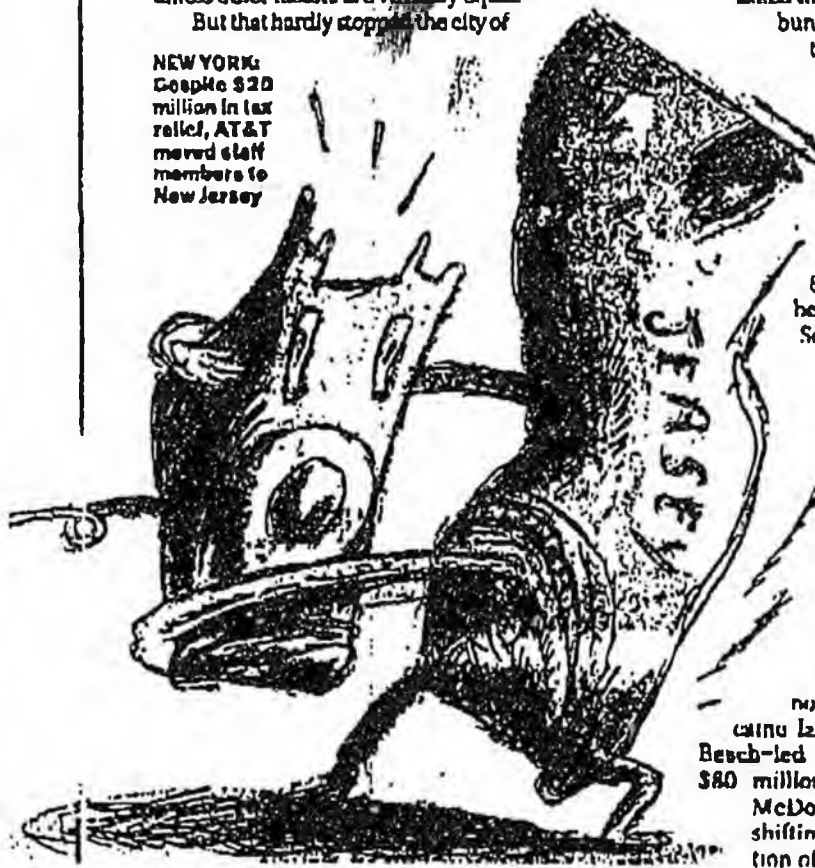
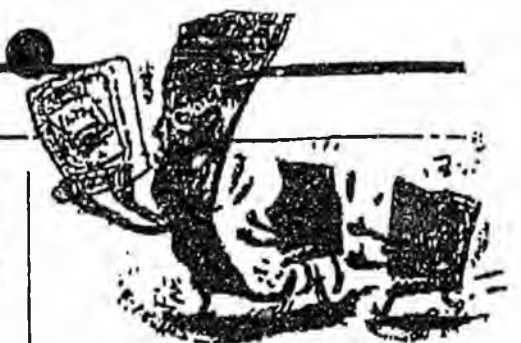
In the midst of this scramble, some governments are setting up controls to keep the fight from getting completely out of hand. Connecticut, for example, has created "clawback" agreements that require corporations that fail to meet job targets to repay tax subsidies. Minnesota scaled back \$420 million in aid to Northwest Airlines after it delivered fewer than 1,000 of 1,500 promised jobs. Washington has also grown concerned. Senator Jeff Bingaman, a New Mexico Democrat, wants the Commerce Department to decide whether companies that receive tax benefits should be required to file cost-benefit analyses and stand behind their job pledges.

Such proposals might surely slow the incentive race. "You can ask, 'Wouldn't it be better to let the free market run its course and not have governments compete against each other this way?'" says North Carolina attorney general Michael Easley. "But that's just not an option when you have 49 other states plus foreign countries using incentives." In other words, the Governor will be keeping his checkbook handy.

—Reported by Jordan Sotnick/Sacramento, James L. Craft/Chicago, Thomas McCarroll/New York and Lisa H. Teare/Raleigh

**MINNESOTA:** Northwest stayed but delivered fewer jobs than promised

Los Angeles from showering \$85 million in tax credits and other incentives on DreamWorks SKG, the new Hollywood studio formed by moguls Steven Spielberg, Jeffrey Katzenberg and David Geffen. Also on the deal were four high-tech companies, including IBM and Silicon Graphics, that are teaming up with DreamWorks to build an entertainment factory on 880 acres of wetlands where Howard Hughes once assembled his lumbering wooden "Spruce Goose" plane.



# A NO-WIN WAR BETWEEN

Politicians are handing out fatter tax breaks than ever to lure jobs to their areas. The

By JOHN GREENWALD

**S**ELF-IMPOSED RAPE" THAT IS THE twisted phrase North Carolina attorney William Maready uses to describe the fevered frequency with which U.S. cities, counties and states are flinging open their coffers to attract big businesses and the jobs they bring. Maready, a trial lawyer whose challenge to the practice was turned back by the North Carolina supreme court last month, is hardly alone in attacking the use of taxpayer funds in the relocation sweepstakes. "We're spending billions of dollars to fund the moving van," says state senator Charles Horn of Ohio, which trucked more than \$2.4 billion last year to lure or keep companies in industries ranging from banking to steel. "In the process, we're draining our budgets in education, research and technology—the very things our future depends on."

With many state budgets strained and many corporations in a downsizing mode, conflicts over job-development subsidies are white-hot. Critics denounce incentives as welfare for private enterprise that isn't paying off. "This is an issue whose time has come because too many giveaways are gnawing away at the tax base of our communities," says Jim Benn, executive director of the Federation for Industrial Retention and Renewal, a grass-roots research group in Chicago. "Teachers and firemen are being laid off, and homeowners and small businesses are getting stuck with even more of the burden."

While some incentives seem to pull in enough new jobs and taxes to recoup the lost revenues, other giveaways fail to do so. The pain is most acute when corporations pocket the money and then cut their work force or defect to a new location. New York City knows the feeling only too well. In a case that still rankles, it handed AT&T \$20 million in tax relief in the 1980s, only to see the phone company later disconnect and move most of its corporate staff to New Jersey. Still, the city is frenetically defending its turf with handouts, especially to financial companies such as Citicorp in Boston.

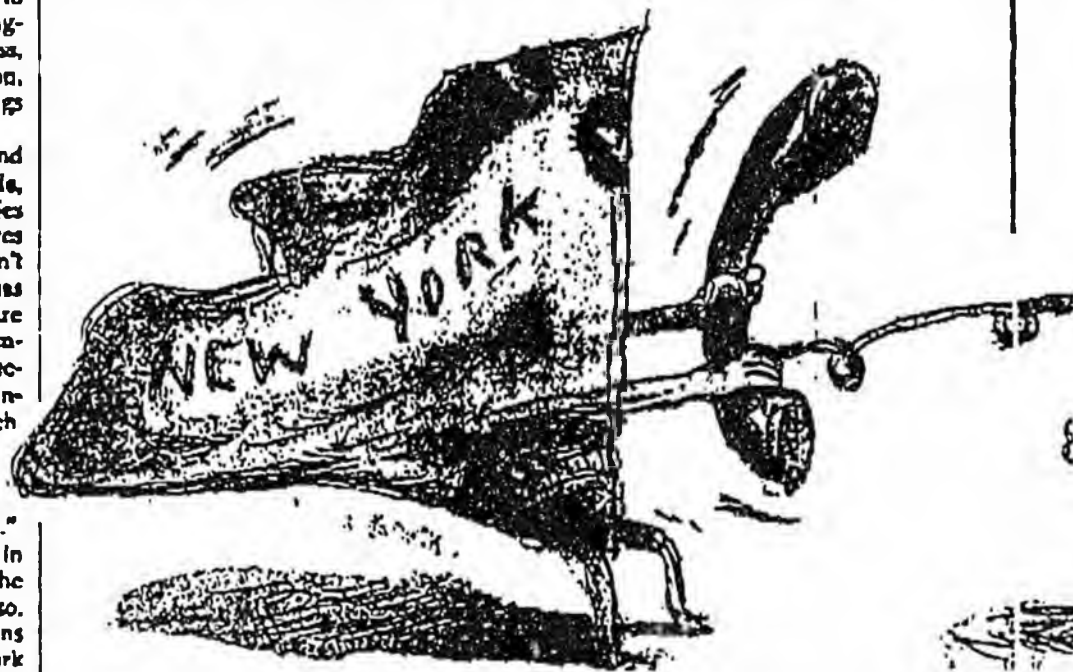
Even the winners of this war between the states may have lingering doubts about the price they have paid. Alabama

pledged property-tax relief and other giveaways worth some \$250 million—or more than \$160,000 per job—to persuade Mercedes-Benz to locate in the town of Vance (pop. 400) a \$520 million plant that will begin building sport-utility vehicles next year. A new crop of state leaders declare that their predecessors could have driven a harder bargain.

Experts say that how well incentives pay off depends on how shrewdly local politicians weigh the costs and benefits. "Incentives shouldn't be a one-size-fits-all deal," says Ken Kuhl, manager of Arthur Andersen's business-relocation service in Atlanta. "What's outrageous for one community may be perfectly reasonable for

dispenses tax breaks to recruit and retain big businesses. The state agency recently kicked in \$28 million to a \$99 million war chest that New York City hopes will keep both the Coffee, Sugar & Cacao Exchange and the New York Cotton Exchange from moving to New Jersey with their 6,000 jobs.

Corporations, skilled at negotiating the price of everything from toilet paper to aircraft, can play states off against one another, as the two commodity exchanges did. Martha Hunt, president of the Connecticut Economic Resource Center, contends that her state has no choice but to play the game. Says she: "Our neighbors would pick our industrial base dry if we sat on our hands and did nothing."



another." The trouble comes when politicians get caught up in battles with rival cities and states and frantically hurl money at corporations.

State development agencies deny these bidding wars, but none is going to be the first to walk away. "If this is what we have to do, by God, we're going to show that we can be competitive," says Charles Gargano, chairman of New York's Empire State Development Corporation, which

Not are such sentiments confined to the hard-pressed Northeast. "The people of North Carolina want us to get jobs," declares Democratic Governor Jim Hunt. "They want us to compete." At Hunt's urging, the Tar Heel State's Development Board has proposed a package of tax incentives that include cutting the corporate income tax from 7.75% to less than 7%.

The dirty little secret in the incentives game is that the real criteria for site selection

Donald W. Ince  
3121 Capstan Dr.  
Anchorage, AK 99516

April 23, 1996

Representative Ramona Barnes  
State Capitol, Room 403  
Juneau, AK 99801-1182

RE: Northstar Lease Terms

Dear Honorable Ramona Barnes,

I am writing this letter to voice my opposition to changing the Northstar lease terms as proposed by British Petroleum and Governor Tony Knowles. I have been following closely the developments regarding the Knowles-BP proposal and I am convinced this is a terrible deal for Alaskans. I read in complete disbelief the manner in which Commissioner of Natural Resources John Shively has analyzed this deal. He essentially says we should trust his analysis that this is a good deal for Alaska. Unfortunately, examination of this deal simply does not support his statement.

There are basically three Northstar production scenarios put forth for analysis as summarized in the chart below.

Northstar Oil Production	Earnings for Alaskans (\$ millions)		BP Pays Alaska (\$/barrel)	
	with net profit	without net profit	with net profit	without net profit
Case 1 = 130 million barrels	\$444 MM	\$435 MM	\$3.42	\$3.35
Case 2 = 105 million barrels	\$312 MM	\$340 MM	\$2.97	\$3.24
Case 3 = 180 million barrels	\$934 MM	\$639 MM	\$5.19	\$3.55

In Case 1, if BP believes Northstar will produce 130 million barrels it is not clear why they would lobby so vigorously to change the lease terms. The difference they must pay to Alaska is only \$9 million or 7¢/barrel. In Case 2, where Northstar produces only 105 million barrels, BP should negotiate to keep the net profit sharing provision. They would actually pay \$28 million (27¢/barrel) less in revenues than if net profits were removed. BP obviously does not believe Northstar will produce only 105 million barrels. So, Alaskans must ask why BP is spending so much time, money and effort

to change these lease terms? The answer is clear when Case 3 is examined. BP believes Northstar will produce significantly more oil than 130 million barrels. It is not difficult to understand why BP concludes Northstar will become an over-achiever considering the past forecasts for other Alaska oil fields. Prudhoe Bay reserves have increased 35% from 9.6 billion to 13 billion barrels, BP's Niakuk field has increased 85% from 54 million to 100 million barrels since production began. BP's Endicott field has increased 200% from 300 million barrels in 1987 to 600 million barrels today.

BP is fighting hard to negotiate this upside potential away from Alaskans. If they succeed, BP could earn an additional \$295 million profit as shown in Case 3. They could earn even more if Northstar performs like Endicott or Niakuk. If their negotiations fail to remove the net profit sharing provision, they will pay \$1.64/barrel more in revenues to Alaska. This is why BP has attempted to intimidate Alaskans by threatening not to develop Northstar unless we give them our net profit share. When our Senate Resource Committee tried to modify the agreement BP's vice-president, Eric Luttrell said, "BP will not reopen the negotiations and cannot agree to the changes." I would respectfully suggest that Alaskans tell Mr. Luttrell and BP that, "Alaskans will not reopen the negotiations at Northstar and won't agree to any lease term changes because we believe a deal is a deal."

Some legislators and other officials may conclude this upside potential at Northstar is speculative and has no value. Obviously, BP believes exactly the opposite. In fact, the value of this upside is exactly what has motivated BP to seek these negotiations. They are not in business to pay taxes and royalties to Alaska, provide jobs to Alaskans or build production modules here. BP is in the oil business to make money. They are betting Alaska will change the lease terms so they can make more money at Northstar. But, examine their proposal carefully. BP makes no binding commitments to construct modules in Alaska or hire Alaskans. The fifty permanent jobs BP estimates will be created by Northstar development will be needed regardless of what the lease terms are or who develops the field. It is very difficult to recognize anything tangible BP is offering Alaska residents in return for us giving them our net profit share of Northstar's upside potential.

As a co-owner of Northstar oil along with all other Alaskans, I urge you to do the right thing and vote against changing Northstar lease terms.

Very truly yours,

Donald W. Ince  
via fax

\*\*

OPINION SECTION

\*

NORTHSTAR DEAL  
LEGISLATORS DEMAND THEIR SAY

By Daily Jews Editorial Staff

The Northstar deal Gov. Tony Knowles cut with BP Exploration is a bad deal. It would significantly alter the way the state handles oil leases, reward a powerful company for a political end run, and perhaps cost the state millions of dollars.

Northstar is a rich oil field. It can and will be developed without the exceptional arrangement championed by the governor.

The combined clout of the oil giant and the state's chief executive have legislators considering some kind of concessions on Northstar. But that's not enough for BP. It wants lawmakers to pass the administration bill virtually untouched.

When Sen. Loren Leman's resources committee reviewed a committee substitute with firmer Alaska hiring and contracting provisions, BP vice president Eric Luttrell told the committee, "Effectively you have not presented an option which would lead to development."

BP's "my way or the highway" rhetoric is simply unacceptable. The Legislature clearly has a responsibility to review the Northstar proposal and offer changes that will benefit Alaskans.

Lawmakers have been concerned about how to enforce BP's local-hire promises since the governor unveiled the deal. They know the dismal history of local hiring, especially of Alaska Natives. Why wouldn't they - why wouldn't Alaskans - have more faith in a legislative statute than in BP promises? And why should BP object to the state writing its promises into law?

"My way or the highway" also is a form of psychological warfare that almost always blows up in the face of those who use

10/27  
40

it on the Legislature. The moment anyone attempts to impose an ultimatum on them, legislators ripple their muscles. When Gov. Steve Cowper called a special session for a subsistence amendment to the Constitution, they rejected him. When Gov. Wally Hickel insisted on a revision of the statute of limitations on oil taxes, they repeated the performance.

When it comes to protecting its prerogatives, the Legislature will fight friendly campaign contributors like the oil companies just as fiercely as its traditional media critics. And they will fight together, on a bipartisan basis, old rivalries momentarily forgotten.

We wish the Legislature would realize the fundamental flaws in the Northstar deal and turn it down. But we appreciate what lawmakers are doing to protect local hiring - and to protect the integrity of the legislative process from a powerful competitor and a powerful governor.

\*  
HOUSE PUSHES BP ON LOCAL HIRE

+  
By STAN JONES

Daily News reporter

JUNEAU - The growing legislative sentiment to force British Petroleum to live up to its Alaska hiring and contracting pledges at the Northstar oil prospect boiled up in the state House on Friday.

Rep. Joe Green's Resources Committee wrote stiff hiring and contracting requirements into its version of the Northstar bill and passed the measure along to the World Trade and State/Federal Relations Committee.

The thrust of the Anchorage Republican's bill is similar to a companion measure that passed out of the Senate Resources Committee this week, though some of the details are different - and tougher - in the new version.

Both bills give the Knowles administration the permission it wants to abandon the state's 89 percent share of the profits at Northstar, a 130 million-barrel offshore prospect a few miles north of Prudhoe Bay. In return, BP Exploration (Alaska) Inc. would agree to give the state a modestly higher share, or royalty, of the oil produced from the field.

But both bills attempt to add some teeth to the nonbinding Alaska hiring and contracting provisions in the deal negotiated by John Shively, Knowles' commissioner of natural resources.

The Department of Natural Resources estimates the deal would cost the state \$9 million in revenue, with the only payoff being slightly earlier development of the field and BP's nonbinding promises on Alaska hiring and contracting.

Several legislators have wondered whether the deal as written

satisfies a requirement in the Alaska Constitution that natural resources be managed for maximum benefit to the state's people. Green's Northstar bill, like the Senate version, calls on BP to hire Alaskans and requires the oil giant to contract with Alaska companies to build facilities for the field and to supply goods and services for the project.

But Green's version is more specific and more stringent. It demands that BP ensure at least 85 percent of its Northstar workers are Alaskans. In 1994, the most recent year for which figures are available, only 70 percent of BP employees were Alaska residents, according to a state study released in January.

And Green's bill forbids the state from giving BP its Northstar tax break until Gov. Tony Knowles certifies the company will meet the 85 percent Alaska-hire target and has signed the mandated construction and supply contracts with Alaska companies.

BP and the Knowles administration have warned that any tinkering with the deal they negotiated could sink the whole arrangement. BP says it won't develop Northstar if the deal falls through; the state says that could delay development by three years.

Jim Palmer, a BP spokesman, said the company still doesn't want to be tied down by provisions as specific as those the Legislature has come up with.

He repeated the company's intent to hire Alaskans for the project, but said its lawyers were worried that language making that goal mandatory might collide with court rulings that torpedoed past efforts to enforce local hire.

Palmer said he didn't quite know what to make of the Green bill's requirement that BP sign up its Northstar contractors and ensure 85 percent local hire before the state formally approved the deal. BP's Alaska office won't be allowed to proceed with the project until its board of directors in London endorses it, and that might not be possible until the state signs the Northstar tax deal.

"The simpler the better, usually, in all these things," Palmer said.

Knowles spokesman Bob King said the governor is also worried legislation won't stand up in court.

"The Department of Law was very careful in writing the Alaska-hire provisions to make sure they comply with the law and we're concerned that Rep. Green's provisions may have gone too far," King said.

Several members of Green's committee said they were worried the local-hire provisions were too tight to stand up in court or that, even if they did, they were unenforceable. Rep. John Davies, D-Fairbanks, wondered if it wouldn't be better to replace the mandatory requirements with incentives. Perhaps, he

suggested, the state royalty share at the field could be tied to BP's success in hiring Alaskans.

Davies didn't try to put such a provision in Green's bill, but said he might try it later as it moves through other committees or when it reaches the House floor.

Palmer said it was probably too late to make such a change to the Northstar bill this year, but said he likes the idea. "It's too bad we couldn't have thought about this a year ago," he said.

The Northstar deal has become one of the most contentious and high-profile issues in the Legislature.

BP has had several of its own lobbyists and executives in and out of Juneau over the past few days. Some of its main contractors for the project have also been prowling the Capitol, sitting through long, slow committee meetings and jawboning lawmakers when a chance arises.

On Wednesday, before the bill came out of the Senate Resources Committee, Veco chairman Bill Allen buttonholed Sen. Loren Leman, R-Anchorage, the committee's chairman, in the busy second-floor hallway that runs between the House and Senate chambers. Allen wanted the Northstar bill as introduced by Knowles, with none of the local-hire or other new provisions added by the Legislature.

"We need a clean bill," Allen said.

"I have to have a bill I can get four votes for," Leman said.

The Senate bill is now in Sen. Rick Halford's Finance Committee. Halford, R-Anchorage, hasn't signaled what he plans to do with it.

In the House, the bill's next stop is with Rep. Ramona Barnes, the Anchorage Republican who chairs the World Trade Committee. Barnes said Friday she's concerned the bill may be unconstitutional if the state doesn't get a clear and certain return for the cash it's giving up in the Northstar agreement.

"In every line that speaks to developing modules in Alaska or hiring Alaskans, it says 'may' or ... that they 'commit,'" Barnes said. "Most of those words, in legislative terms, mean nothing."

\*

## STATE SHOULDN'T GIVE UP NET-PROFITS DEAL FOR NORTHSTAR

By JACK RODERICK

In 1995, BP made the business decision to buy Amerada Hess and Shell's lease interest in Northstar for an undisclosed price against unnamed competitors.

BP felt it could persuade the governor to abolish net-profit provisions in Northstar leases and renegotiate the lease terms. It was a business decision that BP now wishes to justify.

Under net-profits leasing, government has access to financial data not usually available. Sometimes more difficult to administer than bonus and royalty bid leases, net-profit operations greatly circumscribe the operator's immediate net income.

In exploration, a company prefers to take most of the risk so if a discovery is made, immediate income (compared to net profits) is received. The risk inherent in exploring for commercial amounts of oil is high, so large rewards should be given. This makes good business sense for both the operator and the state.

However, Northstar is not an exploration project. It is a development project. Northstar is a discovered oil field. It is at least partially developed. Five wells at Northstar are capable of producing oil. BP estimates that at least 130 billion barrels of oil can be produced from the field.

Being a development and not an exploration project, the ideal way to develop Northstar - from the state's perspective - is by net profits. Using net-profit bidding on a partially discovered oil field was an approach the legislature contemplated when, in 1978-79, it passed the leasing amendment that included net profits.

Under net-profits leasing, the landowner (state) willingly postpones its income until the operator recovers his costs. The operator thus has the incentive to increase his development and operating costs, thereby lessening the landowner's (state's) net-profit share. This so-called "gold-plating" - the operator's incentive to increase costs - when applied to a known oil field like Northstar works very much in the landowner's favor.

This project needs to be done right. Spending a few more

dollars to do it right will benefit everyone. Even contractors like Veco - and even labor unions - will do better under net profits than under straight royalty leases.

An example of how net profits works for government can be seen at the Wilmington oil field offshore the City of Long Beach, Calif. When this giant oil field was discovered some three decades ago, five oil companies bid more than 90 percent net profits to develop and operate it.

The City of Long Beach and the State of California (and some 6,000 uplands owners) have for more than thirty years been sharing net-profit income from the field. No premature production shutdown has happened at Long Beach. Arco now owns the field, which is still producing more than 40,000 barrels of oil a day, and the field is expected to continue producing for another 10 to 15 years.

BP claims it won't develop Northstar unless all net profits are dropped. I think that if the Legislature turns this deal down, BP would either rethink its decision not to proceed or find a successor to develop the field. I don't believe that BP would totally abandon its already substantial investment in Northstar.

The company already has reduced Amerada Hess and Shell's original estimate of the development costs by two-thirds. Any successor would be able to take advantage of these cost reductions. I believe another company or group of companies could develop 130 million barrels of North Slope oil and make a profit.

The proposed BP-state agreement is sometimes presented as an all-or-nothing deal. Either BP develops the field or no one will. A more win-win scenario might be for BP to produce the field under net profits for two years and then go back to the commissioner and seek a reduction in its royalty. This scenario is already possible under existing law.

If the BP-state deal is turned down by the Legislature and BP fails to proceed at Northstar and its leases are returned to the state, competitive re-bidding of these tracts will reveal the leases' true worth.

BP says its main objection to net profits is that it would force the company to prematurely shut down the Northstar field once the state's net profit share kicked in. Rather than produce oil netting it 50 cents a barrel (after all its costs) BP would stop its activities. The company says it doesn't want to be in a position to shut down an oil field prematurely, because such an act would hurt BP's worldwide reputation.

I don't believe BP would shut down a field still making a net profit. I think it would first find a successor (perhaps carrying less overhead than BP's) so that production would be allowed to continue. BP would rather own the North Slope oil than give it to

a competitor. (Arco must be making some profit at Long Beach; at least it owns the oil being produced.)

In any event, Alaska's government would take an interest in any proposed premature shut down of Northstar. If the field were still capable of producing a profit for the state, it would make sure its natural resources were not "wasted."

Jack Roderick, a former mayor of Anchorage, drafted the oil and gas leasing amendment, which included net-profit leasing, that led to the 1979 sale.

BUSINESS SECTION:

\*  
BP WORRIES LOCAL VENDORS  
ALLIANCE EXPRESSES CONCERN OVER OIL GIANT'S USE OF OUTSIDE  
SUPPLIERS

By LISA SCAGLIOTTI  
Daily News reporter

Anchorage vendors who supply the oil industry with everything from work gloves to motors find the debate over BP's proposed Northstar oil field bittersweet.

They support the idea of more oil development in the state, but they're worried about how much benefit their companies will see if a new field comes on line.

That's because many vendors have seen their business with the oil giant drop dramatically over the past year and half since BP Exploration (Alaska) Inc. hired an Outside company to manage its purchasing operations.

"The vendor community supports Northstar. We think it will be good for Alaska hire and fabrication," said Mitch Robison at Debenham Electric Supply Co. "We support the opening of marginal oil fields. But there's another issue - BP's outsourcing of everyday purchases is not good for Alaska."

Robison and other vendors have met through the Alaska Support Industry Alliance, a statewide trade group of companies that do business in the oil patch. They have shared their worries and formed a committee, which Robison co-chairs, to figure out if there are ways to get Alaska companies more business.

"Ultimately, we want to win back these purchases," Robison said.

In August 1994, BP signed a five-year contract with Fairmont Supply Co. to oversee its purchase of \$25 million in supplies, according to BP spokesman Paul Laird. The contract also calls for Fairmont to directly supply BP with an additional \$5 million of goods, Laird said.

BP anticipated this outsourcing would save \$4 million to \$6 million a year, he said. The idea was to eliminate BP's overhead on purchasing and to streamline the company's buying to encompass fewer suppliers, he said.

A Fairmont representative on the North Slope referred inquiries to company officials Outside. Fairmont officials in Washington,

*Nov 27*

Pa., and Price, Utah, did not return five telephone calls Friday to discuss details of their operation in Alaska for this story.

Local vendors say they're uncomfortable with Fairmont's role as purchasing manager and supplier because they hand over to Fairmont sensitive details about their products and prices. "We don't have any reason to doubt their integrity," Laird said.

More important, vendors said, the loss of supply business to Fairmont already has been crippling, and they fear Fairmont's share of the BP supply pie will only grow - at their expense.

Josef Boehm, president of Anchorage-based Alaska Industrial Hardware, said he has seen his BP business practically disappear. In 1994, he counted more than \$600,000 in sales to the oil company; that dropped by half last year and likely won't see six figures this year.

Although AIH hasn't had layoffs, Boehm said, he has eliminated about a half dozen jobs through attrition.

Alaska Bearing Corp. won't hire three or four extra people this summer as it usually does. "And we're looking at a wage reduction to just try and weather this," said owner Bruce Wilkins. The company has a staff of nine, down two through attrition because Wilkins said, his costs aren't falling, but his sales are.

"We sell BP some stuff, maybe once a week where it once was daily," he said. "BP is buying better because it's buying from a bigger distributor, but that sure doesn't help me pay the property taxes."

Jim Borrow owns Bearing Engineering & Supply Co., which has two locations in Alaska and two in Washington state. He said his company had its best year ever with BP in 1994 with sales of more than \$200,000. "Then we did zero last year," he said.

He's bitter; his company has supplied the oil industry since its beginnings in Alaska. "I'm not even sure if there is a BP anymore," he said. "It wouldn't surprise me even if the president of the company is a contract employee."

Boehm called it a contradiction for BP to tout Alaska hire in seeking breaks from the Legislature on its new oil prospect while its buying policies are pinching Alaska companies.

"As it stands now, the local people are losing," Boehm said.

BP president John Morgan has met twice with the Alliance's vendor committee. Company spokesman Jim Palmer said Morgan described how BP hopes to increase the portion of spending it does in state but that the company wants to work with fewer suppliers.

"There will be winners and losers, but we want to be fair," Palmer said.

Vendors have had some political success in trying to secure

future business opportunities with BP. Both the House and Senate versions of legislation dealing with BP's Northstar oil prospect contain language to require BP to purchase goods and services for the project from Alaska vendors.

The Fairmont arrangement is part of a wider BP effort to cut costs in Alaska by outsourcing work. BP recently contracted with Andersen Consulting to handle BP's accounting functions.

The company also sparked protests from the Oil Chemical and Atomic Workers union for its desire to contract out to Veco a handful of what are now union jobs at a Prudhoe Bay maintenance shop. Palmer added that the company also plans to decide this summer whether to outsource another 24 telecommunications jobs.

"We produce oil and gas. We don't run telephone systems," Palmer said.

\*

# Agreement between BP, state leads to earlier development of Northstar oil field, jobs

By John C. Morgan, President  
BP Exploration (Alaska) Inc.

If Alaskans have to wait several more years for the jobs, revenues and business that development of the Northstar oil field will stimulate ... if you settle for less money and fewer benefits ... if you forgo the opportunity to launch a new Alaskan industry building large oil-field facilities in-state ... well, "so be it."

That was the recent editorial opinion of the Anchorage Daily News. But before we all summarily dismiss the benefits of BP's plan to develop Northstar, here's what's at stake:

- Half a billion dollars in new government revenues at a time when lawmakers and the administration are struggling to close the state budget gap — revenues that will flow by early 1999;

- The highest royalty rate paid by any field in Alaska, and a supplemental royalty whenever North Slope oil prices exceed a \$17.35-per-barrel West Coast benchmark;

- 500 construction jobs, 50 permanent jobs and hundreds of indirect jobs they'll support — coupled with BP's commitment to hire Alaskans whenever possible;

- \$200-\$250 million in development spending in Alaska, highlighted by BP's commitment to build Northstar facilities in-state;

- An opportunity to launch a new industry, manufacturing large, "sea-lift" scale modules in Alaska — afforded by BP's willingness to

pay a premium to do so for Northstar as long as capacity is available in-state and technical challenges are overcome;

- BP's commitment to begin development in 1997 and production by 1999 if we secure the necessary permits;

- Access to new development opportunities through technology and infrastructure developed for Northstar.

Between direct spending in Alaska and government revenues, Northstar will have a \$1 billion impact on Alaska's economy under BP's plan.

But before we can enjoy the shared benefits of Northstar development, we first need a change in lease terms. Present terms include a "net-profits tax" averaging 89 percent that's imposed, in addition to royalties and other taxes, once costs are recovered.

Critics suggest BP may be "bluffing" when we say we won't develop under these terms.

Common sense suggests otherwise.

They also imply BP gave the Alaska Department of Natural Resources a "take-it-or-leave-it" ultimatum and persist in misrep-

resenting our agreement with DNR to fix problems with Northstar terms as a "concession" by the state.

Both assertions are untrue. We approached DNR in a spirit of cooperation, to work together to identify a mutually beneficial solution to a mutual problem. The agreement we negotiated achieves that end.

Net-profits leasing began nearly two de-

cadecades ago, when oil prices were soaring and were expected to continue increasing. The state scrapped the experiment in 1984.

The BP-DNR agreement restores net-profit tax provisions from Northstar leases in exchange for tangible benefits to Alaskans — jobs, business, the highest royalty rates in Alaska, a supplemental royalty and early de-

velopment.

It almost inevitably will be more than a few extra years until Alaskans reap these benefits if lease terms aren't adjusted now. There's no guarantee it will ever be developed.

The Daily News seems fundamentally disin-

Continued on Page 7

## Northstar would generate Alaska jobs

Continued from Page 7

interested in these benefits, however, and if wants the Legislature to reject the agreement. Its single-minded focus is the effect on the competitive bid process, and on the political intrigue surrounding the issue.

Consider these facts:

- The leases were issued 17 years ago. Until BP acquired them in 1995 and began working to reduce development costs, they were basically worthless. Many companies involved in the original bidding have gone out of business or pulled out of Alaska.

- There was competitive bidding in 1994 when Amerasia Hess and Shell decided to sell their interests. BP won.

- It's unclear how many companies could honor the North Slope experience, expertise and infrastructure that can be used to make Northstar viable. It's about the interest and commitment. Without the work BP has done to reduce costs, the leases would still have no value over which to debate.

- The attorney general ruled such a change is legal with legislative ratification.

- It's been done before. In 1993, DNR removed net-profit share leases from Thelus Island leases held by Exxon and its partners in exchange for a royalty increase. It did so without legislative approval or public review.

The agreement negotiated between DNR and BP makes earlier development possible. It guarantees new jobs, new business, new revenue, and access to new economic development opportunities for Alaskans. It also guarantees public review through the legislative process.

Alaskans deserve the opportunity to consider the relative importance of these benefits as they decide whether the agreement is a good deal for the state.

# LEGISLATIVE REFERENCE LIBRARY

LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3808  
FAX (907) 465-2029  
Mail Stop 3101

130 Seward Street, Suite 400  
Juneau, Alaska 99801-2105

Copies of minutes listed below were originally included in this file. The minutes are available on the legislative computer database. In order to save space copies of minutes have not been left in the files.

Mary Pagenkopf

House Resources  
4-15-96 5:05 pm  
HB 548



# Alaska State Legislature

## Senate Resources Committee

Official Business

State Capitol  
Juneau AK 99801

Memo

TO: All Legislators

FROM: Senator Loren Leman, Chairman *Loren Leman*

DATE: April 18, 1996

RE: Committee Substitute for Senate Bill 318: Northstar Lease Amendment

---

Attached is a sectional analysis and copy of the Senate Resources Committee Substitute for SB 318 for your use.

## Sectional Analysis of CSSB (RES) for SB 318

### Section 1.

Section 1 has been redrafted and expanded into two sections, both of which are "findings". The new Section 1 consists of 13 separate Articles comprised of "Findings of Fact". The finding of facts section is based upon testimony before the Senate Resources Committee, and upon documents submitted for the record by the Department of Law, the Department of Natural Resources and BP Exploration (Alaska) Inc.

### Section 2.

Section 2, which previously consisted of a listing of the Northstar Unit leases, and provided legislative ratification of the commissioner of Natural Resources' March 22, 1996 agreement with BPXA to amend the leases, now instead contains "Additional Facts and Policy". This section reflects the legislature's articulation and balancing of the state's interests related to ratifying the negotiated amendments to the Northstar Unit leases. It also reaffirms that it is the general policy of the state to enforce the competitively bid terms of its oil and gas leases, and confirms the legislature's intent that the state's oil and gas resources be diligently and timely developed. Finally, Section 2 also provides policy direction to the commissioner that, with the exception of the negotiated amendment authorized under Sec. 3 of the CSSB 318, he is not to renegotiate the competitively bid terms of any state oil and gas lease without prior explicit authorization by the legislature through the passage of a general act granting the authority to do so.

### Section 3.

Section 3, was previously the effective date cite, providing for an immediate effective date. The section has been redrafted. Subsection (a) lists the state oil and gas leases in the Northstar Unit. Subsection (b) provides that the commissioner may amend the Northstar Unit lease provisions, as amended and incorporated in this subsection. (Note: the remainder of subsection (b) consists of a redrafted agreement and exhibits) Subsection (c) provides that "Notwithstanding any other provision of law, the "Amendment to the Northstar Unit Leases Between the State of Alaska and BP Exploration (Alaska) Inc." as described in (b) of this section, if voluntarily agreed to by the commissioner of natural resources and BP Exploration (Alaska) Inc. is approved and ratified."

The original agreement between BP Exploration (Alaska) Inc. and the State of Alaska has been amended in the following manner:

- The word "First" has been deleted from the title of the agreement and from the preamble to remove any ambiguity as to whether additional amendments to the agreement are authorized.
- Several non-material typographical errors were corrected throughout the body of the agreement.

#### 1980 Leases

- The language of Paragraph 28 (c) in the original agreement has been amended by removing the reference to "project schedule" and "project" and replacing them with "sanction schedule" and "sanction", respectively. This was done to reflect the fact that Exhibit C of the agreement, to which Paragraph 28(c) relates, is actually a sanction schedule, not a project schedule, per se. No action other than sanctioning is scheduled under Exhibit C. In addition, a provision making the project sanction irrevocable has been inserted.
- The last two sentences of Paragraph 28 (c) in the original agreement, which provided that "[t]he State may waive performance of an obligation under the project schedule by prior written consent." and "[t]he performance of any obligation required under the project schedule is subject to the provisions of paragraph 32.", have been deleted. Since the only obligation under the "project schedule" was sanction, retention of the original language would have allowed the parties to waive one of the most crucial benefits of the agreement—BPXA's commitment either to proceed with development or to relinquish its leases within one year—by prior written agreement, and without legislative review.
- The language of Paragraph 32. ("Force Majeure") has been amended to make its terms consistent with the amendment to Paragraph 28 (c) noted above. The amendment carves out a narrow exception to the numerous circumstances which BPXA and the State have agreed would constitute force Majeure events under the agreement. The amendment recognizes each of the force majeure events enumerated by the State and BP Exploration (Alaska) Inc. "(other than the obligation to provide project sanction within twelve (12) months of the passage by the legislature of an Act authorizing an Amendment to the Northstar Unit leases for the project)".

- The language of Paragraph 41. in the original agreement, entitled "Employment of Alaskan Residents", has been replaced in its entirety with a new paragraph 41 entitled "Fabrication of Production and Processing Modules Within Alaska and Employment of Alaskan Residents". The amendment retains the original language which makes clear that BPXA's obligations under the agreement are subject to "the constraints of law" and must be in compliance "with all valid federal, State and local laws in hiring Alaska residents and contractors; and shall not discriminate against Alaska residents or contractors." With this disclaimer, however, the requirement to hire Alaskans and to fabricate and install on-site production and processing facilities has been made explicit. These changes were made in response to testimony by the Department of Natural Resources and the Department of Law confirming that the principal non-monetary obligations of BPXA under the terms of the original agreement are unenforceable. The amendment also clarifies that all expenses associated with "the design, fabrication, construction and installation of the production and processing modules required for the development of the Northstar oil field will be the sole responsibility of BP Exploration (Alaska) Inc.

#### 1983 Lease

- The language of Paragraph 4 (f) of the original agreement ("Force Majeure"), has been amended by insertion of the same force majeure language incorporated in the 1980 Leases, as described above.
- The language of Paragraph 20 (c) has been amended to replace the references to "project schedule" and "project" with references to "sanction schedule" and "sanction" to conform with the amendments to the 1980 Leases, as described above.
- The language of Paragraph 3 ("Employment of Alaskan Residents") has been replaced in its entirety with the same language used to amend Paragraph 41 of the 1980 Leases, as noted above.

Rather than authorizing the commissioner of the Department of Natural Resources to amend the Northstar leases as originally contemplated, subsection (c) has been redrafted to provide that "Notwithstanding any other provision of law, the "Amendment to the Northstar Unit Leases Between the State of Alaska and BP Exploration (Alaska) Inc." as described in (b) of this section, if voluntarily agreed to by the commissioner of

natural resources and BP Exploration (Alaska) Inc. is approved and ratified."

#### Section 4.

Section 4 is a new section providing for an effective date. Instead of becoming effective immediately, as originally contemplated by the agreement and the original bill, section 4 provides that "[t]hese amendments take effect on the first day following delivery of a letter from the commissioner of the Department of Natural Resources to the Revisor of Statutes, with copies to the President of the Senate and the Speaker of the House of Representatives, confirming that BP Exploration (Alaska) Inc., or its parent entity has made an irrevocable commitment of full funding (project sanction) to develop the Northstar Oil Field.

—END OF ANALYSIS—

9-GS2065\C  
Cook  
4/17/96

CS FOR SENATE BILL NO. 318(RES)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered:  
Referred:

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing, approving, and ratifying the amendment of Northstar Unit  
2 oil and gas leases between the State of Alaska and BP Exploration (Alaska)  
3 Inc.; and providing for an effective date."

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

5 \* Section 1. FINDINGS OF FACT. Based upon extensive public testimony, as well as the  
6 review of the written documents and presentations made by BP Exploration (Alaska) Inc.  
7 (BPXA), the Department of Law, and the Department of Natural Resources related to the  
8 proposal of BP Exploration (Alaska) Inc. and the Department of Natural Resources to amend  
9 certain of the lease terms of State of Alaska oil and gas leases within the Northstar Unit  
10 (NSU), the legislature makes the following findings of fact:

11 ARTICLE 1. THE STATE'S NET PROFIT SHARE AND HISTORY OF THE  
12 NORTHSTAR LEASES BEFORE UNITIZATION.

13 (1) The net profit share provision of four of the state leases now included in  
14 the Northstar Unit was the competitively bid variable when the leases were originally offered

1 for lease. The leases were offered with a fixed per acre cash bonus and a fixed royalty of 20  
2 percent, and bidders were asked to submit sealed competitive bids based upon the percentage  
3 of net profits that the bidder would share with the state. According to the Department of  
4 Natural Resources, the average of the winning net profit share bids for these leases was "about  
5 89 percent." As to the fifth state lease, the net profit share and royalty were fixed by the  
6 Department of Natural Resources at 40 percent and 12 1/2 percent, respectively, and the  
7 competitively bid variable was the amount of bonus offered by the bidders.

8 (2) The leases for which the net profit share was the bid variable, ADL Nos.  
9 312798, 312799, 312808, and 312809, were offered for lease in State of Alaska Competitive  
10 Oil and Gas Lease Sale 30, that was held in December 1979. These four leases were issued  
11 in 1980 for a primary term of 10 years. The fifth lease, ADL 355001, was offered in State  
12 of Alaska Competitive Oil and Gas Lease Sale 39 in May 1983, and was issued in June 1983.  
13 The primary term of ADL 355001 was also 10 years.

14 (3) The original lessees of the Northstar leases included Amerada Hess Co.,  
15 Shell Oil Co. (Shell), Enterprise Oil Co. (Enterprise), and Murphy Oil Co. In 1990, Amerada  
16 Hess Co. bought Enterprise's interest in the leases for \$2,000,000.

17 (4) Three years after the initial four state leases were issued, Shell Oil Co.  
18 discovered the Northstar oil field while drilling the Seal Island No. 1 Well. Thereafter, during  
19 the period 1984 - 1986 additional wells were drilled to delineate the Northstar field. Those  
20 wells included Shell Seal Island No. 2 (1984); Shell Seal Island No. 3 (1985); Shell Seal  
21 Island No. 4 (1985); Amerada Hess Co. Northstar No. 1 (1985); and Amerada Hess Co.  
22 Northstar No. 2 (1986).

23 (5) Near the end of the 10-year primary term for the initial four state leases  
24 and the two Outer Continental Shelf (OCS) leases that later came to be included in the  
25 Northstar Unit, Amerada Hess Co. and its partners approached the Department of Natural  
26 Resources and the federal Minerals Management Service with a proposal to form the Northstar  
27 Unit.

28 ARTICLE 2. FORMATION OF THE NORTHSTAR UNIT AND  
29 ACTIVITIES UNDER THE INITIAL PLAN OF DEVELOPMENT.

30 (1) Following lengthy negotiations between the Amerada Hess Co., the  
31 Department of Natural Resources, and the Minerals Management Service, the Department of

1 Natural Resources and the Minerals Management Service approved formation of the Northstar  
2 Unit and its initial Plan of Development, thereby extending the ten-year primary term of the  
3 leases committed to the unit.

4 (2) The term of the Northstar Unit was limited initially to five years, however,  
5 from January 24, 1990, until January 23, 1995, and the Plan of Development required by the  
6 Department of Natural Resources provided specific and detailed conditions designed to  
7 encourage expedited evaluation and development of the field.

8 (3) According to the Department of Natural Resources, as a condition of its  
9 approval of the initial five-year Plan of Development for the unit, "[t]he state lessees were  
10 permitted to make progressively larger annual payments to the state in lieu of drilling a well  
11 in the Plan of Development. The extension fee payments were to be paid by the State lessees  
12 to the State under the following schedule: January 31, 1991—\$1 million; January 31,  
13 1992—\$2 million; January 31, 1993—\$2 million; January 31, 1994—\$3 million and  
14 January 31, 1995—\$4 million, unless the fee obligation was extinguished by the drilling of  
15 a well in the unit area." As further conditions of its approval, the Department of Natural  
16 Resources also required Amerada Hess Co. and its partners to conduct certain petrological and  
17 petrophysical analyses, to gather an additional 250 line-miles of geophysical (seismic) data  
18 over the unit area, and to complete facilities design and reservoir engineering studies  
19 (pre-production studies) during the initial Plan of Development.

20 (4) Amerada Hess Co. and its partners made the scheduled "in lieu of drilling"  
21 payments for the first three years of the five-year Plan of Development period, with payments  
22 totaling \$5 million. Amerada Hess Co. then elected to drill the Amerada Hess Co. Northstar  
23 No. 3 Well in 1994, extinguishing its remaining financial obligations to the state under the  
24 terms of the Plan of Development for the Northstar Unit. Amerada Hess Co. and its partners  
25 also timely complied fully with each of the other conditions set out by the Department of  
26 Natural Resources in its approval of the initial Plan of Development.

27 (5) Following the drilling of the Amerada Hess Co. Northstar No. 3 Well  
28 earlier in 1994, Amerada Hess Co. met with representatives of the Department of Natural  
29 Resources and the Minerals Management Service in June 1994, to inform the agencies of its  
30 decision not to proceed with development of the Northstar Unit.

31 (6) Under the terms of the Northstar Unit Agreement, Amerada Hess Co. and

1 its partners were required to submit a proposed Plan of Development to the Department of  
2 Natural Resources late in October 1994, 90 days before the expiration of the first Plan of  
3 Development, or the unit, which had already extended the Northstar Unit leases five years  
4 beyond their initial primary term, would terminate.

5 (7) Having made the decision not to proceed with development of the unit,  
6 Amerada Hess Co. did not submit a proposed second Plan of Development, and under the  
7 terms of the unit agreement and the department's regulations, the Department of Natural  
8 Resources issued a Notice of Default to Amerada Hess Co. and its partners on November 3,  
9 1994.

10 (8) By subsequent letter dated December 12, 1994, the Department of Natural  
11 Resources amended its November 3, 1994, Notice of Default to provide that Amerada Hess  
12 Co. could cure the default either by providing an updated Plan of Development within 90 days  
13 or by voluntarily agreeing to terminate the Northstar Unit Agreement. The Department of  
14 Natural Resources' December 12, 1994, letter concluded "[f]inally, if the NSU terminates,  
15 three State of Alaska leases will continue beyond their primary term pursuant to paragraph  
16 5(d) of the lease. The three leases are ADLs 312798, 312799 and 312809. This is further  
17 notice that within 90 days of termination of the NSU the lessees shall file a Plan of  
18 Development in compliance with the requirements set forth in paragraph 17 of the lease."

19 (9) Amerada Hess Co. and Shell began efforts to sell their respective interests  
20 in the Northstar Unit leases sometime during 1994. Neither the exact timing nor the details  
21 of Amerada Hess Co.'s and Shell's efforts to market the leases are a matter of public record.

22 (10) Amerada Hess Co. and Shell subsequently sold their interests in the  
23 Northstar leases to BP Exploration (Alaska) Inc. early in 1995. BP Exploration (Alaska) Inc.  
24 has characterized the terms of its purchase of the Northstar Unit lease interests as a  
25 "competitive process." However, BP Exploration (Alaska) Inc. has declined to make public  
26 the terms of its purchase or the identity of its competitors for the purchase of Amerada Hess  
27 Co.'s and Shell's interest in the Northstar Unit leases, citing a confidentiality agreement  
28 between the parties that prohibits its doing so. The state played no role in the offering or  
29 selling of Amerada Hess Co.'s and Shell's interest in the Northstar Unit leases to BP  
30 Exploration (Alaska) Inc., nor was it offered the opportunity to compete for the leases.

31 (11) In its purchase of the Northstar Unit leases from Amerada Hess Co. and

1 its partners, BP Exploration (Alaska) Inc. inherited the net profit share development accounts  
2 for those leases. The amount of accrued costs in the Northstar Unit net profit share  
3 development accounts has been estimated by the Department of Natural Resources to be  
4 \$262,000,000. Under the terms of the leases and the Department of Natural Resources'  
5 regulations, although BP Exploration (Alaska) Inc. did not actually spend the \$262,000,000  
6 in the development accounts, it would be entitled to recover those costs, plus its actual future  
7 costs of development, with interest, before it would be obligated to pay the state a share of  
8 net profits from the development of the Northstar Unit leases.

9 (12) Department of Natural Resources Commissioner Shively has testified that  
10 "[T]he implications for the state in that is the longer the development is delayed, the less  
11 money the state is going to get in net profits leasing. And so timing was critical to me as we  
12 negotiated this deal with BP."

13 (13) BP Exploration (Alaska) Inc.'s president, Mr. John Morgan, has testified  
14 "[I]n making that acquisition (purchase of the Northstar leases) we did understand and it was  
15 clear to us that the issue of net profit leases represented a problem, and a problem that would  
16 need to be overcome with the state, if development was to proceed."

17 (14) BP Exploration (Alaska) Inc.'s president, Mr. Morgan, also has testified  
18 that ". . . part of the risk we took when we acquired the leases was that the State of Alaska  
19 may not agree to a modification of the terms that would allow us to go forward with  
20 development, and we did that knowingly and clearly."

21 ARTICLE 3. BP EXPLORATION (ALASKA) INC.'S SUCCESSION  
22 AS NORTHSTAR UNIT OPERATOR AND THE DEPARTMENT OF  
23 NATURAL RESOURCES' APPROVAL OF THE 2ND PLAN OF  
24 DEVELOPMENT FOR THE NORTHSTAR UNIT.

25 (1) On January 13, 1995, BP Exploration (Alaska) Inc. wrote the Department  
26 of Natural Resources and the Minerals Management Service to request that the agencies  
27 approve a 90-day extension to the Department of Natural Resources' earlier Notice of Default  
28 for the Northstar Unit.

29 (2) Effective January 19, 1995, the DNR approved assignment of the state  
30 Northstar Unit leases to BP Exploration (Alaska) Inc. as had been requested earlier, and on  
31 January 20, 1995, both the Department of Natural Resources and the Minerals Management

1 Service approved BP Exploration (Alaska) Inc. as the successor operator of the Northstar Unit;

2 (3) On January 23, 1995, the day the Northstar Unit was scheduled to  
3 terminate under the Department of Natural Resources' Notice of Default for failure of the  
4 operator to provide a proposed Plan of Development, BP Exploration (Alaska) Inc., in its  
5 capacity as the new unit operator, submitted a proposed two-year Plan of Development for the  
6 Northstar Unit. According to documents in the Department of Natural Resources' unit files,  
7 BP Exploration (Alaska) Inc. indicated "that with more time it could submit a more detailed  
8 and decisive plan."

9 (4) The following day, on January 24, 1995, the Department of Natural  
10 Resources and the Minerals Management Service approved BP Exploration (Alaska) Inc.'s  
11 request for an extension to file a more detailed Plan of Development until April 30, 1995.

12 (5) On March 30, 1995, BP Exploration (Alaska) Inc. submitted a revised Plan  
13 of Development and a request to extend the Northstar Unit Agreement for a three-year term  
14 coincident with its revised Plan of Development.

15 (6) It is unclear from the record why the term of the second Plan of  
16 Development was increased from the originally proposed two-year term to a three-year term,  
17 thus extending the time during which the Department of Natural Resources cannot move to  
18 force production from the Northstar Unit leases.

19 (7) On June 2, 1995, the Department of Natural Resources "conditionally"  
20 approved BP Exploration (Alaska) Inc.'s revised three-year Plan of Development.

21 (8) According to the Department of Natural Resources, "[a]s part of the  
22 conditional approval, BPXA was required to submit annual program reports and a final report  
23 to the agencies that synthesizes the data and studies performed by BPXA during the extension  
24 period and BPXA's conclusions and recommendations regarding the development of the NSU.  
25 The POD does not require BPXA to start production during the three year term. Assuming  
26 BPXA complies with the conditions of the second POD, the unit will not expire until April 30,  
27 1998."

28 ARTICLE 4. BP EXPLORATION (ALASKA) INC.'S  
29 INITIAL EFFORTS TO AMEND THE NET PROFIT  
30 SHARE LEASE TERMS.

31 (1) Both BP Exploration (Alaska) Inc.'s President, Mr. Morgan, and

1 Department of Natural Resources Commissioner Shively have testified that at sometime  
2 between January and April 1995, before the Department of Natural Resources' approval of BP  
3 Exploration (Alaska) Inc.'s revised Plan of Development and extension for the Northstar Unit,  
4 BP Exploration (Alaska) Inc. approached the administration, asking that it support the  
5 incorporation of provisions that would allow the commissioner of the Department of Natural  
6 Resources to modify net profit share terms of oil and gas leases in the royalty modification  
7 legislation that the administration requested last session (HB 207). Mr. Patrick Coughlin,  
8 petroleum investment manager for the division of oil and gas, testified that BP Exploration  
9 (Alaska) Inc. requested incorporation of the net profit provisions sometime in late January or  
10 early March (1995) during the drafting of the original version of HB 207.

11 (2) Testimony before the committee by both BP Exploration (Alaska) Inc. and  
12 the Department of Natural Resources reflects that the parties decided, however, not to pursue  
13 authority to amend the terms of net profit share leases in that legislation. According to  
14 Commissioner Shively, ". . . I felt, and ultimately I think BP felt, that adding another issue  
15 to the mix was probably not appropriate."

16 (3) Commissioner Shively testified that, after having decided not to pursue  
17 incorporation of the net profit share amendment provisions within the framework of HB 207,  
18 "he committed to BP at the time to discuss Northstar, but under the conditions that I believed,  
19 at the time, that I probably did not have the legal authority to make a deal with them on  
20 Northstar. And so therefore, that the individual deal itself would have to come to the  
21 legislature. That was always part of the discussions."

22 (4) Based upon testimony by both Commissioner Shively and BP Exploration  
23 (Alaska) Inc.'s Mr. Morgan, it is clear that even had HB 207 been amended to include explicit  
24 authority for the commissioner to reduce the state's net profit share under the same  
25 circumstances as the commissioner was ultimately authorized to reduce the state's royalty  
26 share under the terms of HB 207, to encourage production that otherwise would not be  
27 economically feasible, the commissioner could not have done so in this instance because  
28 production from the Northstar Unit would be economic without amendments to the net profit  
29 share provisions.

30 ARTICLE 5. THE ECONOMICS OF DEVELOPING THE  
31 NORTHSTAR LEASES UNDER THEIR

## EXISTING TERMS.

1  
2 (1) The director of the division of oil and gas, Mr. Ken Boyd, has testified that  
3 "BPXA currently estimates that 76.8% of the recoverable reserves underlie the state leases in  
4 the Northstar Unit (NSU). The Division's Resource Evaluation Group has reviewed this  
5 estimate and other confidential estimates, and believes the 75 to 80% is a reasonable range.  
6 This range could be slightly higher if BPXA develops the known reserves to the Northwest."

7 (2) Both the Department of Natural Resources and BP Exploration (Alaska)  
8 Inc. have testified that BP Exploration (Alaska) Inc.'s development of the Northstar Unit  
9 leases under the original lease terms would be economic. According to BP Exploration  
10 (Alaska) Inc.'s President, Mr. Morgan, "[W]e have never argued that the development of  
11 Northstar could not be profitable under the terms including the net profit arrangements. In  
12 profitability in terms of return on capital, this would be possible. This is not a marginal oil  
13 field."

14 (3) The Department of Natural Resources' independent analysis of the  
15 Northstar Unit economics comes to a similar conclusion. Commissioner Shively has testified  
16 "[t]oday both we, and I think British Petroleum, estimate that around 135 mm barrels of oil  
17 could be recovered from this field. It is not a marginal field; it is not the kind of field we  
18 talked about last year with HB 207. It is a field fully capable of carrying its own under the  
19 appropriate economic conditions."

20 (4) BP Exploration (Alaska) Inc.'s President, Mr. Morgan, has testified ". . .  
21 that with the net profit arrangement in place, at the level that it exists, BP would not be  
22 prepared to go ahead with the development of a Northstar project, even though, if you run the  
23 economics, you can show that the return on investment for the project is a sound sort of return  
24 on investment."

25 (5) Based upon BP Exploration (Alaska) Inc.'s own analysis, development of  
26 the Northstar project "would have an estimated BP Net Revenue of approximately \$485  
27 million and a full project Rate of Return (ROR) of around 21%."

28 (6) BP Exploration (Alaska) Inc. has testified that its rate of return for a  
29 "hypothetical incremental investment" later in field life (2007) would be 21 percent without  
30 the net profit share lease terms versus 10 percent with the net profit share lease terms.

31 (7) In its September 1995 report to the Governor's Oil and Gas Policy Council

1 entitled "Review of International Competitiveness of Alaska's Fiscal System" (Little Report),  
2 the Arthur D. Little Co. concluded "[Oil] companies generally look for a rate of return of  
3 about 15% . . . Projects with lower returns usually do not generate enough profits to encourage  
4 companies to commit time and resources to their development."

5 (8) Commissioner Shively testified "I do not believe that no oil company in  
6 the world could develop this field under the current provisions. When we did the economic  
7 analysis, we believe the rate of return is sufficient for somebody to want to do it. On the  
8 other hand, BP has told us that they would not do it, and therefore, I cannot make a finding  
9 that under the current situation the development of the field is not economically feasible. It,  
10 in my mind, is economically feasible under both considerations. Both of the considerations  
11 of the net profits and using the supplemental royalty. BP has said for them it is not  
12 developable under the net profit conditions."

13 (9) Based upon BP Exploration (Alaska) Inc.'s estimates of the recoverable  
14 reserves and project development costs, the Northstar Unit has a per barrel development cost  
15 of \$2.90. For comparison, other North Slope projects which BP Exploration (Alaska) Inc. has  
16 sanctioned (approved and committed the funding to develop), the year in which the  
17 developments were sanctioned and BP Exploration (Alaska) Inc.'s estimated per barrel cost  
18 of developing each are: Kuparuk (1982) - \$6.65 per barrel; Endicott (1985) - \$5.40 per barrel;  
19 Prudhoe Bay Unit: GHX-2 (1992) - \$4.45 per barrel; Pt. McIntyre (1992) - \$2.30 per barrel;  
20 and Niakuk (1992) - \$2.50 per barrel.

21 (10) BP Exploration (Alaska) Inc. estimates the per barrel development costs  
22 for both the Milne Point Unit - Schrader Bluff development and the Northstar project, neither  
23 of which have yet been sanctioned by BP Exploration (Alaska) Inc. management, to be \$1.80  
24 per barrel, and \$2.90 per barrel, respectively.

25 ARTICLE 6. REVENUE TRADE-OFFS FROM  
26 THE LEASING OF THE NORTHSTAR LEASES  
27 WITH THE NET PROFIT SHARE AS THE  
28 COMPETITIVE BID VARIABLE.

29 (1) The Department of Natural Resources' decision to offer the Northstar leases  
30 with the net profit share as the competitive bid variable in 1979 represented a conscious  
31 trade-off of larger immediate bonus payments for the potential to receive a share of the

1 lessees' net profits from the development of any field subsequently discovered. Since oil and  
2 gas exploration is inherently risky, with commercial discoveries occurring far less frequently  
3 than dry holes, the Department of Natural Resources' bid strategy entailed risk sharing with  
4 the lessees. Compared to other bidding terms available to the Department of Natural  
5 Resources, the selection of net profit share terms allowed successful bidders to obtain the  
6 leases for less cash than would otherwise have been required.

7 (2) Based upon its review of the bonus revenue received for the federal leases  
8 within the Northstar Unit, which were leased with a 16 2/3 percent sliding scale royalty and  
9 the bonus as the bid variable, the Department of Natural Resources estimates the state's  
10 Northstar Unit leases could have brought \$268,406,052, as opposed to the \$15,469,000  
11 actually received, had the leases been offered with a 12 1/2 percent royalty, no net-profit share  
12 and with the bonus as the bid variable.

13 (3) Assuming the Department of Natural Resources' estimate of bonuses is  
14 correct and based upon the annual realized rate of returns reported by the Alaska Permanent  
15 Fund Corporation in its 1995 report, the balance of the 50 percent of the \$268,406,052 that  
16 would have been deposited to the permanent fund would have been \$704,588,494 at year-end  
17 1995.

18 (4) The Department of Natural Resources has provided estimates of the bonus  
19 revenues that the state would receive today if the Northstar Unit leases were returned to the  
20 state for reoffering in a competitive sale with bonus as the bid variable, with royalty set at 12  
21 1/2 percent or 20 percent, with no net profit share and with estimated recoverable reserves,  
22 capital and operating costs as estimated in its economic modeling of the agreement with BP  
23 Exploration (Alaska) Inc. For a 12 1/2 percent royalty and at discount rates of 10 percent and  
24 15 percent, the Department of Natural Resources estimates that the mean value of anticipated  
25 bonuses would be \$225,000,000 and \$130,000,000, respectively. For a 20 percent royalty and  
26 at discount rates of 10 percent and 15 percent, the Department of Natural Resources estimates  
27 the mean value of anticipated bonuses would be \$182,000,000 and \$98,000,000, respectively.

28 ARTICLE 7. BP EXPLORATION (ALASKA) INC.'S  
29 REFUSAL TO DEVELOP THE NORTHSTAR  
30 UNIT LEASES UNLESS THE NET PROFIT  
31 SHARE PROVISIONS ARE AMENDED.

1 (1) Notwithstanding the acknowledged profitability of developing the Northstar  
2 field under its existing lease terms, BP Exploration (Alaska) Inc.'s President, *Mr. Morgan* has  
3 testified that BP Exploration (Alaska) Inc. will not develop the Northstar Unit leases unless  
4 the State of Alaska agrees to eliminate the net profit share provisions of the leases.

5 (2) There is no precedent, nor is there explicit legislative authority for the  
6 commissioner of natural resources to retroactively change the competitively bid variable of  
7 a state oil and gas lease.

8 (3) The Department of Natural Resources has testified that BP Exploration  
9 (Alaska) Inc. did not inform the state of its unwillingness to develop the Northstar Unit leases  
10 without amendment of the net profit share terms until some time after the department had  
11 approved the current Plan of Development and the three-year extension of the unit term.

12 (4) The Department of Natural Resources has testified that there is an implied  
13 covenant for lessees of Alaska's oil and gas leases to diligently explore and develop their  
14 leases. The Department of Natural Resources also has testified, however, that since the  
15 department has approved a three-year Plan of Development for the Northstar Unit leases that  
16 does not explicitly require development of the field, it believes that so long as BP Exploration  
17 (Alaska) Inc. meets the requirements of that plan, it would be seen as fulfilling its obligation  
18 to develop, and cannot be forced to proceed with production during the term of the current  
19 plan which does not expire until June 1998.

20 (5) The Department of Natural Resources has testified that BP Exploration  
21 (Alaska) Inc.'s refusal to develop the Northstar Unit leases represents the first occasion in  
22 which a state oil and gas lessee has confirmed that it could develop an oil field economically,  
23 but that it is unwilling to do so unless the state renegotiates the competitively bid terms of the  
24 leases.

25 (6) The Department of Natural Resources has testified that if the department  
26 had not approved a further three-year extension for the Northstar Unit in June 1995, the leases  
27 within the unit that did not have wells upon them certified to be capable of production in  
28 paying quantities would have reverted to the state, becoming available for releasing. Under  
29 the lease provisions and the regulations, the department could then have given notice to BP  
30 Exploration (Alaska) Inc. to begin production from those leases that did have wells certified  
31 as capable of production in paying quantities within a reasonable time to do so, that could not

1 have been less than six months.

2 (7) As to why the Department of Natural Resources did not insist on a firm  
3 commitment from BP Exploration (Alaska) Inc. last year that it would develop the Northstar  
4 Unit leases before the department agreed to extend the Northstar Unit for three years,  
5 Commissioner Shivley has testified ". . . [I]f we had all the information in the spring of last  
6 year that we had today, we might have made another decision; we did not have that  
7 information."

8 (8) The Department of Natural Resources' approval of the second Plan of  
9 Development, and the resulting three-year extension, effectively eliminated any leverage the  
10 department might have had otherwise to expedite BP Exploration (Alaska) Inc.'s development  
11 of the Northstar Unit leases without amendment of the leases.

12 (9) Both the Department of Natural Resources and the Department of Law  
13 have testified that the Department of Natural Resources did not consult with the Department  
14 of Law regarding whether the state might have any legal basis for moving earlier than 1998  
15 to force production under the lease terms, given the unique facts in this case.

16 ARTICLE 8. THE DEPARTMENT OF NATURAL RESOURCES' AND  
17 BP EXPLORATION (ALASKA) INC.'S NEGOTIATIONS TO AMEND  
18 THE NORTHSTAR UNIT LEASES.

19 (1) Based upon BP Exploration (Alaska) Inc.'s representation that it would not  
20 develop the Northstar Unit leases under their existing terms, the Department of Natural  
21 Resources entered into confidential negotiations with BP Exploration (Alaska) Inc. in the fall  
22 of 1995 to amend the state's oil and gas lease terms.

23 (2) As its principal reason for proceeding with the negotiations to amend the  
24 leases, the Department of Natural Resources cited its desire to assure that production begins  
25 earlier than it otherwise would under the timeline estimated by the Department of Revenue.  
26 The Department of Natural Resources maintains that, if the legislature does not pass SB 318,  
27 the earliest that the department could now force BP Exploration (Alaska) Inc. to develop the  
28 field would be 2002;

29 (3) Department of Natural Resources' Commissioner Shivley has testified that,  
30 "[t]he negotiations were long--longer than I had hoped. I had hoped to have this agreement  
31 to the legislature earlier; they were at times very difficult, but I believe that we have

1 negotiated a deal that is in the best interests of the state."

2 (4) BP Exploration (Alaska) Inc.'s President, Mr. Morgan, has testified that ".  
3 . . I can't stress enough, that from BP's perspective, this was a long and very formal  
4 negotiating process, that I don't see the agreement contained in this bill as in any way being  
5 an incentive to BP; I see it as a very balanced agreement coming out of that negotiation."

6 (5) Under the terms of the agreement negotiated by BP Exploration (Alaska)  
7 Inc. and the Department of Natural Resources, the state agrees to waive its net profit interest  
8 in the leases, and in return is to receive an increased royalty rate on one of the five leases,  
9 from 12 1/2 percent to 20 percent, as well as the potential to receive a "supplemental royalty"  
10 on all of the leases, depending upon whether oil prices rise sufficiently in the future beyond  
11 a specified threshold (trigger) price. In addition, BP Exploration (Alaska) Inc. has made  
12 certain nonbinding commitments to increases in state employment, conditional commitments  
13 to construct certain undefined modules, and facilities necessary to develop the Northstar Unit  
14 within Alaska and has agreed to relinquish the Northstar Unit leases if BP Exploration  
15 (Alaska) Inc.'s management does not sanction the project within one year after the effective  
16 date of legislation ratifying amendment of the leases.

17 ARTICLE 9. LEGAL ANALYSIS BY THE DEPARTMENT OF LAW.

18 (1) As to whether the commissioner has the authority to amend the state's net  
19 profit share lease terms in a situation where those terms were the competitive bid variable in  
20 a sale, the Attorney General has testified that "Clearly what we are faced here is with a  
21 diminution of revenues that would come to the state . . . and that would require the  
22 commissioner in order to make the changes to make a finding that this project otherwise  
23 would not be economically feasible. And that was a conclusion which the commissioner  
24 would not and could not make. And once again, whether 180 (AS 38.05.180) would apply,  
25 in this instance it could not apply. And again, our reasoning supports the need to put this  
26 matter before the legislature."

27 (2) As to whether legislative ratification of a negotiated agreement between the  
28 commissioner of the Department of Natural Resources and BP Exploration (Alaska) Inc. to  
29 modify the terms of the Northstar Unit leases would violate the Constitution of the State of  
30 Alaska's prohibition against local or special legislation, the Department of Law representative  
31 has testified that "[I]t will be the department's responsibility to carefully articulate the state's

1 interest during legislative hearings on the bill proposing the net profit share reduction. This  
2 must be done with the goal in mind of establishing a detailed legislative history supporting  
3 the interests of the state. The legislative history will be important because the ultimate  
4 decision 'whether a general act can be made applicable' rests with the Alaska Supreme Court."

5 (3) The Department of Law representative has testified that "[i]f there is  
6 valuable consideration received by both the state and the leaseholder, the benefit to the state  
7 may be characterized as direct."

8 (4) The Department of Law representative has also testified that "[b]ecause the  
9 State leased the oil rights at the Northstar field pursuant to the constitutional mandate to obtain  
10 the maximum public benefit, an effort to expedite production vitally affects the public  
11 interest."

12 (5) The Department of Law has also testified "[w]e believe that a compelling  
13 case can be made that there is adequate consideration to support a finding of a direct and  
14 substantial public benefit flowing from the reduction of the net profit share."

15 (6) As to whether the promises of local manufacture and assembly of facilities  
16 must be binding terms of the Northstar Agreement in order to meet the "statewide  
17 significance" test, the Department of Law representative has testified "[t]hat there needs to be  
18 a record made here in the legislature of the State interests that are behind this very narrowly  
19 focused piece of legislation. As far as the promises to be binding I think it is enough that  
20 there's some good and sound reason for this kind of legislation."

21 (7) The Department of Law representative has testified that "[w]hether the  
22 agreement bears fruit I don't think is as important as the fact that you are doing it in good  
23 faith belief that it will happen. I don't know if I can tell you that it has to be binding. That's  
24 not a consideration of our opinion. It's merely a fact that there must be some sound  
25 reasonable basis for making this legislation as narrow as it is."

26 (8) The Department of Law representative has testified "[w]e think this  
27 transaction has state-wide significance because of the amount of revenue that's involved, the  
28 fact the major population center of the railbelt area would be the beneficiary of some of the  
29 economic activity connected with the development of the Northstar Unit, that fact that  
30 petroleum revenues form such a large percentage of the total revenues to the State. It makes  
31 this a very good case for being a matter of state-wide significance."

1 (9) As to whether the expenditures (loss of state revenues) under the Northstar  
2 Agreement meet the "public purposes" test under art. IX, sec. 6, of the Alaska Constitution,  
3 the Department of Law representative has testified "[i]t's been our opinion in the past that the  
4 courts will generally find a public purpose if the legislature declares it to be a public purpose.  
5 That's been the reasoning of the courts. From our side, analyzing it even further than that,  
6 because we don't like to stop there sometimes being the executive branch. We also analyze  
7 it as this mutually of consideration that there has to be some equal exchange in order for there  
8 to be a public purpose."

9 (10) As to the consideration which the state must receive under the Northstar  
10 Agreement, the Department of Law representative has testified "[t]here has to be, in order to  
11 satisfy the public purpose doctrine, a direct public benefit and not an indirect public benefit--  
12 when you're giving up public revenues or foregoing some debt that's owed you by some third  
13 party. There has to be a direct public benefit and not an indirect benefit. The direct benefit  
14 cannot only flow to the other interest and there appears to be direct public benefit here in  
15 connection with the way this agreement is structured."

16 (11) As to whether the consideration which the State expects to receive under  
17 the Northstar Agreement actually must be received, the Department of Law representative has  
18 testified "[n]o, I don't think so, not under the public purpose doctrine. The public purpose  
19 doctrine is the one legal issue that worries me the least. I think this transaction easily passes  
20 the public purpose doctrine test. The courts have been very deferential to legislative  
21 determinations of what is in the best interests of the State to expend its money on or to forego  
22 its revenues on or to receive additional revenues on. The courts have been very deferential  
23 in that regard and I don't see that as being a major factor influencing the validity of this  
24 particular transaction."

25 (12) As to whether an aggrieved bidder may have standing to challenge the  
26 Department of Natural Resources' negotiated amendments to the competitively bid lease terms,  
27 the Department of Law representative has testified "We note that the issue is present, that  
28 someone can raise this as a means of attacking the validity of the lease amendments. What  
29 we conclude is that if the legislature were to enact specific authorization, both ratifying and  
30 approving the contract, and authorizing the department to undertake the lease change, that, we  
31 think, would overcome the competitive bidding argument."

1 (13) The Department of Law representative has testified that "[o]ther persons  
2 who competed for the leases may claim that since the net profit share was the sole variable  
3 in the lease sale, it is such a material term that a change cannot be made without violating the  
4 competitive bidding statute. Uncertainty concerning the state's prospects for prevailing on any  
5 litigation on this issue gives an additional basis for our advice that the department seek  
6 independent statutory authority for the Northstar transaction."

7 (14) As to whether the legislature's passage of SB 318 will effectively shield  
8 the Department of Natural Resources' negotiated amendments to the Northstar Unit leases from  
9 legal challenge, the attorney general has testified "I guess my own judgment on this . . . we  
10 can't give you the certainty that absent this kind legislation, we would prevail on the argument.  
11 That's precisely, again, I think one of the reasons we brought this to the legislature, and Jim's  
12 (Assistant Attorney General Jim Baldwin) comments earlier about seeing legislative action as  
13 being an effective vaccination, as it were, against that kind of challenge."

14 (15) The attorney general has testified that "[w]ith legislative action, I think  
15 we have a high degree of confidence that we would prevail on this issue."

16 ARTICLE 10. THE DEPARTMENT OF NATURAL RESOURCES' AND  
17 BP EXPLORATION (ALASKA) INC.'S VIEW OF THE LEGISLATURE'S ROLE  
18 IN RATIFICATION AND PASSAGE OF SB 318.

19 (1) Although both BP Exploration (Alaska) Inc.'s President, Mr. Morgan, and  
20 Commissioner Shively have testified that they believe legislative approval of the amendments  
21 is necessary, both have confirmed their intent that the legislature's role in reviewing the  
22 negotiated amendments should be limited to voting for or against ratification of the agreement  
23 that they have negotiated, and should not include amending the terms of the agreement.  
24 Commissioner Shively testified "[w]ell, Mr. Chairman, John Morgan just said, we have  
25 presented this as an up or down vote. And we did it for a variety of reasons. One, the  
26 negotiations we went through were long and complex. It was late in the session. On the other  
27 hand, if there are things that BP believes that they would like to agree to, we will certainly  
28 look at them."

29 (2) BP Exploration (Alaska) Inc.'s President, Mr. Morgan, testified "I have to  
30 say that from our perspective, we have in good faith reached a negotiated agreement with the  
31 administration, and I believe that any variation of those terms would cast that whole

1 negotiating process into doubt. So it's both my belief that that was the intent of the  
2 administration in introducing the bill, and it would certainly be my very strong preference that  
3 this should be handled essentially on an approval or disapproval basis, without the introduction  
4 of any significant or material changes."

5 ARTICLE 11. THE EFFECTS OF THE AMENDMENTS ON THE STATE'S SHARE  
6 OF REVENUE FROM THE DEVELOPMENT OF THE NORTHSTAR UNIT.

7 (1) Based upon the Department of Natural Resources' analyses, the negotiated  
8 amendments to the Northstar Unit leases will reduce expected state revenue from the  
9 development of the Northstar Unit. However, the Department of Natural Resources cannot  
10 precisely define the state's future revenue losses. Commissioner Shively noted that "the only  
11 thing we know about all these numbers (the DNR's economic modeling of the effects of  
12 amending the NSU leases), is since they are projections, is that they are wrong, we just don't  
13 know how wrong."

14 (2) The Department of Natural Resources' Mr. Coughlin has testified regarding  
15 potential state revenue loss that "[i]f you look at it as if they (BP Exploration (Alaska) Inc.)  
16 would go ahead and develop it because it's, they say, an economic field, the state loses, in  
17 essence, \$48 million by trading a net profit share for the supplemental royalty."

18 (3) The Department of Natural Resources' representative has testified that its  
19 evaluation of the economic consequences to the state of amending the Northstar Unit leases  
20 to remove the net profit provisions is based upon the assumption that the "mean" recoverable  
21 oil reserves from the Northstar Unit are likely to be 130,000,000 barrels, and that there is a  
22 10 percent probability that recoverable reserves will be greater than 105,000,000 barrels and  
23 a 90 percent probability that recoverable reserves will be less than 160,000,000 barrels."

24 (4) The Department of Natural Resources has testified that its analysis of the  
25 economic consequences to the state of amending the Northstar Unit lease terms to remove the  
26 net profit provisions is based upon an assumed peak production rate from the field of 50,000  
27 barrels per day.

28 (5) As to whether the Department of Natural Resources, in the course of its  
29 negotiations with BP Exploration (Alaska) Inc. had considered whether to add some sort of  
30 corrective factor to the agreement to compensate if the reserves ultimately prove to be  
31 considerably larger than estimated, Commissioner Shively has testified "[w]e did have a

1 proposal at one time on the table that would have taken that into account. That's not where  
2 we ended up. It was part of a more complicated formula that was developed by our division  
3 of oil and gas that was part of one of our counter-offers."

4 (6) The Department of Natural Resources' petroleum economist, Mr. Kevin  
5 Banks, who was responsible for evaluating the economic effects of the Northstar Unit lease  
6 amendments, has testified that the negotiated agreement is an "okay" deal rather than a "good"  
7 deal for the state. In response to the question of why he characterized the deal as "okay"  
8 rather than "good", Mr. Banks, testified "I think it has to do with the fact that the net profit  
9 share has considerable up-side for the state. If there's any change in the economics of the  
10 field that improves, if prices are considerably higher, for example, or if production is any  
11 higher. As some of the materials we sent over to you earlier would indicate, the net profit  
12 share really pours in. By the same token, it's exactly the problem that BP has with it: that  
13 for any increase in the "benefits" that might be associated with the higher production rates or  
14 higher prices, or some other economic feature, the state gets all of it, virtually all of it. And  
15 it has a fairly serious impact on the economics and the incentives for incremental kinds of  
16 projects for the company. And that's why I say it's "okay." There is a high side to this that  
17 I think we can't ignore."

18 ARTICLE 12. THE NONMONETARY TERMS OF THE DEPARTMENT OF  
19 NATURAL RESOURCES/BP EXPLORATION (ALASKA) INC. NEGOTIATED  
20 AMENDMENTS TO THE NORTHSTAR UNIT LEASES AND THE  
21 ENFORCEABILITY OF THOSE TERMS.

22 (1) As to whether the terms in the negotiated agreement between the  
23 Department of Natural Resources and BP Exploration (Alaska) Inc. regarding local hire and  
24 local contracting are enforceable, Commissioner Shively has testified "I do not believe we  
25 could--that that language allows us to enforce to the extent BP is morally committed to do,  
26 and I don't think you can write language to do that."

27 (2) Although the agreement to amend the Northstar Unit leases purportedly  
28 provides for automatic termination of the leases, making them available for releasing under  
29 the state's competitive oil and gas leasing program, should BP Exploration (Alaska) Inc. not  
30 sanction the project within 12 months, Commissioner Shively has testified that the agreement  
31 contains a provision that allows the state to waive the obligation by prior written consent.

1 (3) The Department of Law has testified that any waiver of BP Exploration  
2 (Alaska) Inc.'s commitment to perform under the sanction schedule would have to be done  
3 "reasonably and not arbitrarily," and Commissioner Shively has testified "I have no intention  
4 of waiving that. I mean that's a very important part of the arrangement, and I mean, I think  
5 that if we cannot get this project going, then we need to reassess those leases and get them  
6 back out onto the public market."

7 (4) In response to the question of how would the administration, or a court if  
8 the need should arise, measure compliance given the number of disclaimers and qualifiers, and  
9 the lack of any specific performance measures in the agreement, Commissioner Shively has  
10 testified "I think we have stated this before. What we are asking BP to do, and what they  
11 have committed to do, I do not believe is enforceable by law."

12 ARTICLE 13. POLICY IMPLICATIONS OF THE PASSAGE OF SB 318.

13 (1) As to where the state ultimately ends up if, as a matter of precedent, it has  
14 to negotiate against itself in other instances to encourage its existing lessees to honor the terms  
15 of their competitively bid contracts, Commissioner Shively has testified "[A]ny of these things  
16 puts the state in a difficult position. We've, on the other hand, there have been provisions that  
17 allow the state to modify lease terms in the law and in the lease since Statehood. This is not  
18 a new concept. I was actually just reading an article the other day about the recent leases or  
19 arrangements that were made between the Venezuelan government and a number of private  
20 companies, and one of the conclusions of that article was that the first thing the companies  
21 were going to do down there was go back in and renegotiate their terms. And so, it does put  
22 the government in a difficult position. It's why I think in things like this and also like heavy  
23 oil, we need to do some economic and other analyses, which we did. But I think in this day  
24 and age this is part of how the government manages its resources. But it is not new. We've  
25 made changes to the leases before. We have not made changes in this particular way, but we  
26 have done these before, and once you start down that road, which we started down years ago,  
27 yes, the state does put itself in a difficult position, but not an impossible position."

28 (2) In response to the question of how the commissioner can test whether, and  
29 to what extent the state must give up public resources to promote the development of the  
30 state's resources, if, as here, there are no standards and no rules, Commissioner Shively has  
31 testified "When you make these decisions, it's like anything else, you have to use your best

1 judgment. I happen to believe that one of the problems with government is that we try to set  
2 all of these sorts of rules and guidelines, and it's what makes government unworkable. What  
3 you need is people that can make judgments, that can look at difficult situations, assess the  
4 information, and say this is a good idea or a bad idea. I see nothing wrong with that. I think  
5 that's better government, but this idea that we have now that if you just have enough rules and  
6 enough regulations, everything is going to be perfect is nuts. I mean, even the bidding  
7 process doesn't necessarily guarantee the state that you get your full value for your resources.  
8 You get the most somebody wants to pay for it. That may or may not be full value."

9 \* Sec. 2. ADDITIONAL FINDINGS AND POLICY. Based upon the findings of facts set  
10 out above, the legislature finds:

11 (1) the production of oil and gas from state land is a matter of statewide  
12 interest and effect because it is the principal source of revenue to the state and provides  
13 important job opportunities for the people of the state;

14 (2) BP Exploration (Alaska) Inc. holds certain state oil and gas leases in the  
15 Northstar Unit that include net profit share provisions;

16 (3) BP Exploration (Alaska) Inc. has refused to develop the Northstar Unit  
17 leases unless the leases are amended to eliminate the net profit share provisions;

18 (4) unless the net profit share provisions of the Northstar Unit are amended,  
19 production of oil and gas from the unit is highly unlikely to begin before the year 2002;

20 (5) because of the development account provisions of the net profit share  
21 leases, the later that these leases are developed, the less "net profits" the state receives;

22 (6) if the net profit share provisions of the Northstar Unit leases are amended,  
23 full production of oil and gas from the unit may begin as early as the year 1999;

24 (7) amending the net profit share provisions of the Northstar Unit leases to  
25 provide for a supplemental royalty, instead of a share of net profits, will provide economic  
26 benefits of oil and gas production to the people of the state by encouraging production from  
27 the Northstar Unit earlier than it might otherwise occur under the terms of the Northstar Unit  
28 Agreement and the unit's approved Plan of Development;

29 (8) the development of the unit and the associated construction of unit facilities  
30 within the state will provide additional revenue to the state and increased job opportunities;

31 (9) the expedited development of the unit may result in increased state revenue

1 from future oil and gas lease sales;

2 (10) the expedited development of the unit may result in technological  
3 breakthroughs and other cost savings that may make other development opportunities in the  
4 state economically feasible;

5 (11) notwithstanding the anticipated benefits that may result from the  
6 amendment of the Northstar Unit's net profit share lease terms, the legislature reaffirms that  
7 it is the policy of the state to enforce the competitively bid terms of its oil and gas leases and  
8 that the commissioner of natural resources should assure that the state's oil and gas resources  
9 are being diligently and timely developed;

10 (12) the public's confidence that the terms of the state's oil and gas leases are  
11 being fairly and uniformly administered must be maintained;

12 (13) it is important to assure that there is no appearance of favoritism in the  
13 state's administration of its oil and leases; and therefore

14 (14) except as provided under sec. 3 of this Act, the commissioner of natural  
15 resources is directed not to negotiate the amendment of the competitively bid terms of any  
16 state oil and gas lease without prior explicit authorization by the legislature through the  
17 passage of a general act granting the authority to do so.

18 \* Sec. 3. (a) The State of Alaska and BP Exploration (Alaska) Inc. are parties to the  
19 following leases in the Northstar Unit:

20 (1) ADL 312798, effective February 1, 1980;

21 (2) ADL 312799, effective February 1, 1980;

22 (3) ADL 312808, effective February 1, 1980;

23 (4) ADL 312809, effective February 1, 1980; and

24 (5) ADL 355001, effective August 1, 1983.

25 (b) The commissioner of natural resources may amend the Northstar Unit leases  
26 described in (a) of this section as set out below:

27 AMENDMENT TO THE NORTHSTAR UNIT LEASES

28 BETWEEN THE STATE OF ALASKA AND

29 BP EXPLORATION (ALASKA) INC.

30 The State of Alaska ("State") and BP Exploration (Alaska) Inc.  
31 ("BPXA") are parties to the following leases in the Northstar Unit: ADL

1 312798, effective February 1, 1980; ADL 312799, effective February 1, 1980;  
2 ADL 312808, effective February 1, 1980; and ADL 312809, effective  
3 February 1, 1980 (collectively the "1980 Leases"); as well as ADL 355001,  
4 effective August 1, 1983 (the "1983 Lease"). The parties agree to amend the  
5 1980 Leases and the 1983 Lease as set forth in this amendment to the Northstar  
6 Unit leases.

7 1980 Leases

8 (1) Paragraph 6(b) is replaced in its entirety as follows:

9 (b) Annual rental paid in advance is a credit on the royalty or  
10 supplemental royalty due under this lease for that year.

11 (2) Paragraph 7 is replaced in its entirety as follows:

12 7. SUPPLEMENTAL ROYALTY. (a) In addition to the  
13 royalty paid and computed under paragraphs 8, 10, and 11 below,  
14 Lessee shall pay to the State a supplemental royalty ("supplemental  
15 royalty"). Lessee shall pay the supplemental royalty, if owed, upon the  
16 same production volume for which royalty is paid ("production  
17 volume"). The supplemental royalty payment for a given month equals  
18 the supplemental royalty value times the supplemental royalty  
19 percentage rate ("percentage rate") times the production volume for that  
20 month. The percentage rate shall be calculated monthly by reference  
21 to: (1) an ANS West Coast spot price ("spot price"); and (2) a  
22 supplemental royalty trigger price ("trigger price"). If the spot price is  
23 equal to or less than the trigger price, then the percentage rate equals  
24 zero. If the spot price is greater than the trigger price, then the  
25 percentage rate equals [the spot price per barrel minus the trigger price  
26 per barrel] times 1.5 percent per dollar per barrel. The percentage rate  
27 may never exceed 7.5 percent.

28 (b) The spot price is the price per barrel calculated in Article  
29 3.3 of and Exhibit 4 to the ANS Royalty Litigation Settlement  
30 Agreement ("ANS Agreement"), dated December 31, 1991, between the  
31 State and BPXA, for the crude oil referred to as "ANS (USWC)" in the

1           ANS Agreement. The trigger price is \$17.35 per barrel through  
2           April 30, 1997. On May 1, 1997, and each May 1 thereafter, the  
3           trigger price shall be adjusted by an inflation factor equal to fifty  
4           percent of the "inflation rate" defined as the Producer Price Index for  
5           Industrial Commodities ("PPI") for December of the previous year, as  
6           reported by April 30 of the current year, divided by the PPI for  
7           December of 1995, as reported by April 30, 1996. The supplemental  
8           royalty value for oil, gas, natural gas liquids and associated substances  
9           is defined in paragraphs 10 and 11 below. Exhibit B is a sample  
10          calculation to demonstrate the method of calculating supplemental  
11          royalty for oil.

12          (3) Paragraph 9 is replaced in its entirety as follows:

13                 9. REDUCTION OF ROYALTY. Except as provided in  
14                 paragraph 7 above, Lessee shall not be entitled to any reduction of  
15                 royalty paid under paragraph 8 above or supplemental royalty paid  
16                 under paragraph 7 above based on any current or future agreement,  
17                 State statute, or State regulation.

18          (4) Paragraph 10 is replaced in its entirety as follows:

19                 10. ROYALTY IN VALUE. Unless the State elects to receive  
20                 all or a portion of its royalty or supplemental royalty in kind as  
21                 provided in paragraph 12 below, Lessee shall pay to the State the value  
22                 of all royalty and supplemental royalty oil, gas and associated  
23                 substances as determined under paragraph 11 below. Royalty and  
24                 supplemental royalty paid in value shall be free and clear of all lease  
25                 expenses (and any portion of such expenses which is incurred away  
26                 from the leased area), including, but not limited to, expenses for  
27                 separation, cleaning, dehydration, gathering, saltwater disposal, and  
28                 preparing the oil, gas or associated substances for transportation off the  
29                 leased area. All royalty and supplemental royalty that may become  
30                 payable in money to the State shall be paid on or before the last day of  
31                 the calendar month following the month in which the oil, gas or

1 associated substances are produced. Royalty and supplemental royalty  
2 payments shall be accompanied by copies of run tickets or such other  
3 information relating to valuation of royalty and supplemental royalty as  
4 the State may require, which may include, but is not limited to,  
5 evidence of sales, shipments, and amounts of gross oil, gas and  
6 associated substances produced.

7 (5) Paragraph 11 is replaced in its entirety as follows:

8 11. VALUE. For purposes of computing supplemental royalty  
9 due under this lease, the value of supplemental royalty oil, gas, natural  
10 gas liquids and associated substances shall be the value used in  
11 computing royalty on said substances.

12 (a) To compute the value of oil for royalty and supplemental  
13 royalty purposes, this lease shall be deemed an "ANS Lease" under the  
14 terms of the ANS Agreement, irrespective of any provision(s) of such  
15 agreement which would otherwise exclude this lease therefrom.

16 (b) To compute the value of gas and natural gas liquids for  
17 royalty and supplemental royalty purposes, this lease shall be deemed  
18 a "Lease" under the terms of the 1995 ANS Gas Royalty Litigation  
19 Settlement Agreement between BPXA and the State dated as of April 1,  
20 1995, irrespective of any provision(s) of such agreement which would  
21 otherwise exclude this lease therefrom.

22 (c) To compute the value of associated substances (which shall  
23 be deemed to exclude oil, gas, and natural gas liquids) for royalty and  
24 supplemental royalty purposes, the value of such associated substances  
25 shall not be less than the highest of:

26 (1) the field price actually received by Lessee for such  
27 associated substances;

28 (2) Lessee's posted price in the field for such associated  
29 substances;

30 (3) the volume weighted average field price actually  
31 received by other producers in the same field or area for associated

1 substances of like kind and quality at the time such associated  
2 substances are removed from the leased or unit area; or

3 (4) the volume weighted average posted price in the  
4 field of other producers in the same field or area for associated  
5 substances of like kind and quality at the time such associated  
6 substances are removed from the leased or unit area.

7 If associated substances are sold away from the leased or unit  
8 area, the term "field price" above shall be the actual price for such  
9 associated substances received from the purchaser thereof less the actual  
10 cost of transportation away from the leased or unit area to the point of  
11 delivery.

12 Minimum Value Determinations. The State may establish  
13 minimum values for purposes of computing royalties on associated  
14 substances obtained from this lease, with consideration being given to  
15 the price actually received by Lessee, to the price or prices paid in the  
16 same field or area for production of like quality, to posted prices, to  
17 prices received by Lessee and/or other producers from sales occurring  
18 away from the leased area, and to other relevant matters. Each such  
19 determination will be made only after Lessee has been given notice and  
20 a reasonable opportunity to be heard. Under this provision, it is  
21 expressly agreed that the minimum value of royalty associated  
22 substances under this lease may not necessarily equal the price of such  
23 associated substances.

24 (6) The following provision shall be added to the end of paragraph 12:

25 (e) Supplemental royalty under paragraph 7 above may be taken  
26 in kind under the same terms and conditions as royalty may be taken  
27 in kind under this paragraph 12.

28 (7) Paragraph 14 is replaced in its entirety as follows:

29 14. APPORTIONMENT OF ROYALTY FROM APPROVED  
30 UNIT. The landowner's royalty and supplemental royalty share of the  
31 unit production allocated to each separately owned tract shall be

1           regarded as royalty to be distributed to and among, or the proceeds of  
2           it paid to, the landowners, free and clear of all unit expense and free of  
3           any lien for it. Under this provision, the State's royalty and  
4           supplemental royalty share of any unit production allocated to the  
5           leased area shall be regarded as royalty to be distributed to, or the  
6           proceeds of it paid to, the State, free and clear of all unit expenses (and  
7           any portion of such expenses which is incurred away from the unit  
8           area), including, but not limited to, expenses for separation, cleaning,  
9           dehydration, gathering, saltwater disposal, and preparing oil, gas or  
10          associated substances for transportation off the unit area, and free of  
11          any lien for it.

12          (8) Paragraph 28 (c) is added as follows:

13                   (c) Notwithstanding any other provisions of this lease, the  
14                   Northstar Unit Agreement, State statute, or State regulation, this lease  
15                   shall terminate automatically without notice, an opportunity to be heard,  
16                   or judicial proceeding, if the Lessee fails to comply with the sanction  
17                   schedule set forth in Exhibit C ("sanction schedule"), attached and  
18                   incorporated by reference. Automatic termination shall occur whether  
19                   or not there is a well on the leased area capable of producing oil or gas  
20                   in paying quantities, the lease is committed to a unit agreement, or the  
21                   Lessee is drilling or conducting reworking operations, on the date  
22                   performance under the schedule is due. Furthermore, upon termination  
23                   BPXA shall promptly file of record appropriate lease relinquishments.  
24                   The automatic termination shall occur at 11:59 P.M., Alaska Time, on  
25                   the day performance of the obligation under the sanction schedule is  
26                   due.

27          (9) Paragraph 32 is replaced in its entirety as follows:

28                   32. FORCE MAJEURE. If the State determines that Lessee has  
29                   been prevented, after diligent efforts made in good faith, from  
30                   complying with any express or implied promise, term, condition or  
31                   covenant of this lease (other than the obligation to provide project

1 sanction within twelve (12) months of the passage by the legislature of  
2 an Act authorizing an Amendment to the Northstar Unit leases for the  
3 project), from conducting drilling operations, or from producing or  
4 marketing oil or gas from the leased area, by reason of war, riots, acts  
5 of God, unusually severe weather, or any other cause beyond Lessee's  
6 reasonable ability to foresee or control (including delays caused by  
7 judicial decision or lack thereof or inability to obtain local, State, or  
8 federal permits or environmental impact statements), whether similar to  
9 those enumerated or not, Lessee's obligation to comply with such  
10 provision shall be suspended, but not voided, and Lessee shall not be  
11 liable for damages for failure to comply therewith. If Lessee's  
12 obligations to conduct drilling or reworking operations are suspended  
13 under this paragraph and the continuation of such operations without  
14 suspension would have had the effect of preventing the expiration or  
15 termination of this lease, this lease shall not terminate during the period  
16 which the obligation to perform such operations is suspended. Nothing  
17 in this paragraph shall be construed to suspend the obligation to pay  
18 rentals, or to suspend the obligation to pay royalties, supplemental  
19 royalties or other production payments from operations on the lease area  
20 which are not suspended or from operations which are not affected by  
21 any such suspension, to the State.

22 (10) Paragraph 41 is replaced in its entirety as follows:

23 41. FABRICATION OF PRODUCTION AND PROCESSING  
24 MODULES WITHIN ALASKA AND EMPLOYMENT OF ALASKAN  
25 RESIDENTS. Lessee agrees to utilize on-site production and  
26 processing modules for development of the Northstar oil field, and  
27 agrees to fabricate those modules within Alaska. The State of Alaska  
28 will not be responsible for contributing to any capital expenditures  
29 required to prepare, develop or operate any sites or facilities necessary  
30 for the fabrication, transportation or installation of the Northstar Unit  
31 production and processing modules. All expenses associated with the

1 design, fabrication, transportation and installation of production and  
2 processing modules required for the development of the Northstar oil  
3 field will be the sole responsibility of BP Exploration (Alaska) Inc. and  
4 its contractors.

5 Lessee shall comply with all valid federal, State and local laws  
6 in hiring Alaska residents and contractors and shall not discriminate  
7 against Alaska residents or contractors. Within the constraints of law,  
8 Lessee shall employ Alaska residents and contractors to the extent they  
9 are available and qualified. Subject to the foregoing:

10 Lessee voluntarily agrees to hire residents of Alaska. Lessee  
11 shall advertise for available positions locally and use Alaska job service  
12 organizations to notify the Alaskan public. For work in connection with  
13 this lease, Lessee shall contract with Alaska firms and fabricate the  
14 modules for on-site production and processing facilities in Alaska.  
15 Lessee shall require its contractors to employ and train, when necessary,  
16 residents of Alaska. Lessee shall submit annually to the Director,  
17 Division of Oil and Gas, for transmission to the President of the Senate  
18 and the Speaker of the House of Representatives, a report that details  
19 the specific measures Lessee and its contractors and subcontractors have  
20 taken or are planning to take to recruit qualified Alaska residents for  
21 available jobs, describes on-the-job training opportunities, and describes  
22 Lessee's efforts to hire Alaska firms for work in connection with this  
23 lease. Lessee shall furnish the Department of Labor, for transmission  
24 to the President of the Senate and the Speaker of the House of  
25 Representatives, a quarterly report regarding the employment of Alaska  
26 residents on the lease area in compliance with regulations by the  
27 Department of Labor. The report must also include statistical data  
28 concerning the number of resident personnel hired within the past year  
29 for this lease.

30 1983 Lease

31 (1) Paragraph 4(f) and paragraph 34(7) are deleted and replaced in their

1 entirety with the following paragraph 4(f):

2 (f) FORCE MAJEURE. If the State determines that lessee has  
3 been prevented, after diligent efforts made in good faith, from  
4 complying with any express or implied promise, term, condition or  
5 covenant of this lease (other than the obligation to provide project  
6 sanction within twelve (12) months of the passage by the legislature of  
7 an Act authorizing an Amendment to the Northstar Unit leases for the  
8 project), from conducting drilling operations, or from producing or  
9 marketing oil or gas from the leased area, by reason of war, riots, acts  
10 of God, unusually severe weather, or any other cause beyond lessee's  
11 reasonable ability to foresee or control (including delays caused by  
12 judicial decision or lack thereof or inability to obtain local, State, or  
13 federal permits or environmental impact statements), whether similar to  
14 those enumerated or not, lessee's obligation to comply with such  
15 provision shall be suspended, but not voided, and lessee shall not be  
16 liable for damages for failure to comply therewith. If lessee's  
17 obligations to conduct drilling or reworking operations are suspended  
18 under this paragraph and the continuation of such operations without  
19 suspension would have had the effect of preventing the expiration or  
20 termination of this lease, this lease shall not terminate during the period  
21 which the obligation to perform such operations is suspended. Nothing  
22 in this paragraph shall be construed to suspend the obligation to pay  
23 rentals, or to suspend the obligation to pay royalties, supplemental  
24 royalties or other production payments from operations on the lease area  
25 which are not suspended or from operations which are not affected by  
26 any such suspension, to the State.

27 (2) Paragraph 5(b) is replaced in its entirety as follows:

28 (b) Annual rental paid in advance is a credit on the royalty or  
29 supplemental royalty due under this lease for that year.

30 (3) Paragraph 7 is replaced in its entirety as follows:

31 7. APPORTIONMENT OF ROYALTY FROM APPROVED

1 UNIT. The State's royalty and supplemental royalty share of the unit  
2 production allocated to each separately owned tract must be regarded  
3 as royalty to be distributed to or among, or the proceeds of it paid to,  
4 the State, free and clear of all unit expenses and free of any lien for  
5 them. Under this provision, the State's royalty and supplemental royalty  
6 share of any unit production allocated to the leased ~~area~~ will be  
7 regarded as royalty to be distributed to, or the proceeds of it paid to, the  
8 State, free and clear of all unit expenses (and any portion of those  
9 expenses incurred away from the unit area), including, but not limited  
10 to, expenses for separating, cleaning, dehydration, gathering, saltwater  
11 disposal, and preparing oil, gas, or associated substances for  
12 transportation off the unit area, and free of any lien for them.

13 (4) A new paragraph 20(c) is added as follows:

14 (c) Notwithstanding any other provisions of this lease, the  
15 Northstar Unit Agreement, State statute, or State regulation, this lease  
16 shall terminate automatically without notice, an opportunity to be heard,  
17 or judicial proceeding, if the lessee fails to comply with the sanction  
18 schedule set forth in Exhibit C ("sanction schedule"), attached and  
19 incorporated by reference. Automatic termination shall occur whether  
20 or not there is a well on the leased area capable of producing oil or gas  
21 in paying quantities, the lease is committed to a unit agreement, or the  
22 lessee is drilling or conducting reworking operations, on the date  
23 performance under the schedule is due. Furthermore, upon termination  
24 BPXA shall promptly file of record appropriate lease relinquishments.  
25 The automatic termination shall occur at 11:59 P.M., Alaska Time, on  
26 the day performance of an obligation under the sanction schedule is  
27 due.

28 (5) Paragraph 31 is replaced in its entirety as follows:

29 31. FABRICATION OF PRODUCTION AND PROCESSING  
30 MODULES WITHIN ALASKA AND EMPLOYMENT OF ALASKAN  
31 RESIDENTS. Lessee agrees to utilize on-site production and

1 processing modules for development of the Northstar oil field, and  
2 agrees to fabricate those modules within Alaska. The State of Alaska  
3 will not be responsible for contributing to any capital expenditures  
4 required to prepare, develop or operate any sites or facilities necessary  
5 for the fabrication, transportation or installation of the Northstar Unit  
6 production and processing modules. All expenses associated with the  
7 design, fabrication, transportation and installation of production and  
8 processing modules required for the development of the Northstar oil  
9 field will be the sole responsibility of BP Exploration (Alaska) Inc. and  
10 its contractors.

11 Lessee shall comply with all valid federal, State and local laws  
12 in hiring Alaska residents and contractors and shall not discriminate  
13 against Alaska residents or contractors. Within the constraints of law,  
14 Lessee shall employ Alaska residents and contractors to the extent they  
15 are available and qualified. Subject to the foregoing:

16 Lessee voluntarily agrees to hire residents of Alaska. Lessee  
17 shall advertise for available positions locally and use Alaska job service  
18 organizations to notify the Alaskan public. For work in connection with  
19 this lease, Lessee shall contract with Alaska firms and fabricate the  
20 modules for on-site production and processing facilities in Alaska.  
21 Lessee shall require its contractors to employ and train, when necessary,  
22 residents of Alaska. Lessee shall submit annually to the Director,  
23 Division of Oil and Gas, for transmission to the President of the Senate  
24 and the Speaker of the House of Representatives, a report that details  
25 the specific measures Lessee and its contractors and subcontractors have  
26 taken or are planning to take to recruit qualified Alaska residents for  
27 available jobs, describes on-the-job training opportunities, and describes  
28 Lessee's efforts to hire Alaska firms for work in connection with this  
29 lease. Lessee shall furnish the Department of Labor, for transmission  
30 to the President of the Senate and the Speaker of the House of  
31 Representatives, a quarterly report regarding the employment of Alaska

1 residents on the lease area in compliance with regulations by the  
2 Department of Labor. The report must also include statistical data  
3 concerning the number of resident personnel hired within the past year  
4 for this lease.

5 (6) Paragraph 35 is replaced in its entirety as follows:

6 35. ROYALTY ON PRODUCTION. Except for oil, gas, and  
7 associated substances used on the leased area for development and  
8 production or unavoidably lost, the lessee shall pay to the State as a  
9 royalty 20 percent in amount or value of the oil, gas, and associated  
10 substances saved, removed, or sold from the leased area and of the gas  
11 used on the leased area for extraction of natural gasoline or other  
12 products from the leased area.

13 (7) Paragraph 36 is replaced in its entirety as follows:

14 36. VALUE. For purposes of computing supplemental royalty  
15 due under this lease, the value of supplemental royalty oil, gas, natural  
16 gas liquids, and associated substances shall be the value used in  
17 computing royalty on said substances.

18 (a) To compute the value of oil for royalty and supplemental  
19 royalty purposes, this lease shall be deemed an "ANS Lease" under the  
20 terms of the ANS Agreement, irrespective of any provision(s) of such  
21 agreement which would otherwise exclude this lease therefrom.

22 (b) To compute value of gas and natural gas liquids for royalty  
23 and supplemental royalty purposes, this lease shall be deemed a "Lease"  
24 under the terms of the 1995 ANS Gas Royalty Litigation Settlement  
25 Agreement between BPXA and the State dated as of April 1, 1995,  
26 irrespective of any provision(s) of such agreement which would  
27 otherwise exclude this lease therefrom.

28 (c) To compute the value of associated substances (which shall  
29 be deemed to exclude oil, gas, and natural gas liquids) for royalty and  
30 supplemental royalty purposes, the value of such associated substances  
31 shall not be less than the highest of:

1 (1) the field price actually received by lessee for such  
2 associated substances;

3 (2) Lessee's posted price in the field for such associated  
4 substances;

5 (3) the volume weighted average field price actually  
6 received by other producers in the same field or area for associated  
7 substances of like kind and quality at the time such associated  
8 substances are removed from the leased or unit area; or

9 (4) the volume weighted average posted price in the  
10 field of other producers in the same field or area for associated  
11 substances of like kind and quality at the time such associated  
12 substances are removed from the leased or unit area.

13 If associated substances are sold away from the leased or unit  
14 area, the term "field price" above shall be the actual price for such  
15 associated substances received from the purchaser thereof less the actual  
16 cost of transportation away from the leased or unit area to the point of  
17 delivery.

18 Minimum Value Determinations. The State may establish  
19 minimum values for purposes of computing royalties on associated  
20 substances obtained from this lease, with consideration being given to  
21 the price actually received by lessee, to the price or prices paid in the  
22 same field or area for production of like quality, to posted prices, to  
23 prices received by lessee and/or other producers from sales occurring  
24 away from the leased area, and to other relevant matters. Each such  
25 determination will be made only after lessee has been given notice and  
26 a reasonable opportunity to be heard. Under this provision, it is  
27 expressly agreed that the minimum value of royalty associated  
28 substances under this lease may not necessarily equal the price of such  
29 associated substances.

30 (8) Paragraph 37 is replaced in its entirety as follows:

31 37. ROYALTY IN VALUE. Unless the State elects to receive

1 all or a portion of its royalty or supplemental royalty in kind as  
2 provided in paragraph 38, lessee shall pay to the State the value of all  
3 royalty and supplemental royalty oil, gas and associated substances as  
4 determined under paragraph 36. Royalty and supplemental royalty paid  
5 in value shall be free and clear of all lease expenses (and any portion  
6 of such expenses which is incurred away from the leased area),  
7 including, but not limited to, expenses for separation, cleaning,  
8 dehydration, gathering, saltwater disposal, and preparing the oil, gas or  
9 associated substances for transportation off the leased area. All royalty  
10 and supplemental royalty that may become payable in money to the  
11 State shall be paid on or before the last day of the calendar month  
12 following the month in which the oil, gas or associated substances are  
13 produced. Royalty and supplemental royalty payments shall be  
14 accompanied by copies of run tickets or such other information relating  
15 to valuation of royalty and supplemental royalty as the State may  
16 require, which may include, but is not limited to, evidence of sales,  
17 shipments, and amounts of gross oil, gas and associated substances  
18 produced.

19 (9) The following provisions shall be added to the end of paragraph 38:

20 (f) Supplemental royalty under this lease may be taken in kind  
21 under the same terms and conditions as royalty may be taken in kind  
22 under this paragraph 38.

23 (10) Paragraph 39 is replaced in its entirety as follows:

24 39. REDUCTION OF ROYALTY. Except as provided in  
25 paragraph 40 below, lessee shall not be entitled to any reduction of  
26 royalty paid under paragraph 35 above or supplemental royalty paid  
27 under paragraph 40 below based on any current or future agreement,  
28 State statute, or State regulation.

29 (11) Paragraph 40 is replaced in its entirety as follows:

30 40. SUPPLEMENTAL ROYALTY. (a) In addition to the  
31 royalty paid and computed under paragraphs 35, 36, 37 above, lessee

1 shall pay to the State a supplemental royalty ("supplemental royalty").  
2 Lessee shall pay the supplemental royalty, if owed, upon the same  
3 production volume for which royalty is paid ("production volume").  
4 The supplemental royalty payment for a given month equals the  
5 supplemental royalty value times the supplemental royalty percentage  
6 rate ("percentage rate") times the production volume for that month.  
7 The percentage rate shall be calculated monthly by reference to: (1) an  
8 ANS West Coast spot price ("spot price"); and (2) a supplemental  
9 royalty trigger price ("trigger price"). If the spot price is equal to or  
10 less than the trigger price, then the percentage rate equals zero. If the  
11 spot price is greater than the trigger price, then the percentage rate  
12 equals [the spot price per barrel minus the trigger price per barrel] times  
13 1.5 percent per dollar per barrel. The percentage rate may never exceed  
14 7.5 percent.

15 (b) The spot price is the price per barrel calculated in Article  
16 3.3 of and Exhibit 4 to the ANS Royalty Litigation Settlement  
17 Agreement ("ANS Agreement"), dated December 31, 1991, between the  
18 State and BP Exploration (Alaska) Inc. for the crude oil referred to as  
19 "ANS (USWC)" in the ANS Agreement. The trigger price is \$17.35  
20 per barrel through April 30, 1997. On May 1, 1997, and each May 1  
21 thereafter, the trigger price shall be adjusted by an inflation factor equal  
22 to fifty percent of the "inflation rate" defined as the Producer Price  
23 Index for Industrial Commodities ("PPI") for December of the previous  
24 year, as reported by April 30 of the current year, divided by the PPI for  
25 December of 1995, as reported by April 30, 1996. The supplemental  
26 royalty value for oil, gas, natural gas liquids and associated substances  
27 is defined in paragraphs 36 and 37 above. Exhibit B is a sample  
28 calculation to demonstrate the method of calculating supplemental  
29 royalty for oil.

30 These amendments do not affect: (1) any future agreements which may  
31 be reached for the handling of outside substances as that term is used in the

1 Northstar Unit Agreement effective January 24, 1990, or (2) the current  
 2 valuation methodology for royalty for any other Alaska Net Profit Share leases  
 3 between the State and BP Exploration (Alaska) Inc. or any affiliates or any  
 4 future agreements which may be reached regarding a future valuation  
 5 methodology for Alaska Net Profit Share leases. These amendments take effect  
 6 on the first day following delivery of a letter from the commissioner of the  
 7 Department of Natural Resources to the Revisor of Statutes, with copies to the  
 8 President of the Senate and the Speaker of the House of Representatives,  
 9 confirming that BP Exploration (Alaska) Inc. or its parent entity has made an  
 10 irrevocable commitment of full funding (project sanction) to develop the North  
 11 Star Oil Field. This amendment is dated for reference purposes as of \_\_\_\_\_  
 12 \_\_\_\_\_ (Date).

13	LESSEE:	LESSOR:
14	BP EXPLORATION (ALASKA), INC.	STATE OF ALASKA
15	_____	_____
16	_____, Vice President	_____, Commissioner
17		Department of Natural Resources

18 STATE OF ALASKA )  
 19 ) ss.  
 20 Third Judicial District )

21 On \_\_\_\_\_, 1996, before me appeared \_\_\_\_\_,  
 22 Commissioner, State of Alaska, Department of Natural Resources, and who  
 23 executed this lease and acknowledged voluntarily signing it on behalf of the  
 24 State of Alaska, as lessor.

25 \_\_\_\_\_  
 26 Notary Public in and for the State of Alaska  
 27 My Commission expires: \_\_\_\_\_

28 STATE OF ALASKA )  
 29 ) ss.  
 30 Third Judicial District )

31 On \_\_\_\_\_, 1996, before me appeared \_\_\_\_\_

1 Vice President of BP Exploration (Alaska), Inc. and who executed this lease  
 2 and acknowledged voluntarily signing it on behalf of the BP Exploration  
 3 (Alaska), Inc. as lessee.

4 \_\_\_\_\_  
 5 Notary Public in and for the State of Alaska

6 My Commission expires: \_\_\_\_\_

7 Exhibit B

8 Calculation of the Supplemental Royalty Payment for Oil

9 (1) The calculation of the ANS West Coast spot price is derived  
 10 from Platt's "Oilgram Price Report" Spot Crude Price Assessments:

11 Platt's Reported Daily

12 Assessment (\$/barrel)

13 Date	ANSWC	ANSWC	ANSWC	ANSWC
14	Low	High	Daily Average	Daily Average
15				(After Rounding) <sup>1</sup>
16 01/02/96	\$17.97	\$18.06	\$18.015	\$18.02
17 01/03/96	\$17.94	\$18.03	\$17.985	\$17.98
18 01/04/96	\$17.96	\$18.03	\$17.995	\$18.00
19 01/05/96	\$18.60	\$18.64	\$18.620	\$18.62
20 01/09/96	\$18.23	\$18.29	\$18.260	\$18.26
21 01/10/96	\$17.99	\$18.05	\$18.020	\$18.02
22 01/11/96	\$17.10	\$17.17	\$18.135	\$17.14
23 01/12/96	\$16.64	\$16.71	\$18.675	\$16.68
24 01/15/96	\$16.75	\$16.83	\$16.690	\$16.79
25 01/16/96	\$16.60	\$16.66	\$16.730	\$16.63
26 01/17/96	\$16.91	\$16.97	\$16.940	\$16.94
27 01/18/96	\$17.46	\$17.54	\$17.500	\$17.50
28 01/19/96	\$17.28	\$17.3	\$17.325	\$17.32
29 01/22/96	\$17.02	\$17.08	\$17.050	\$17.05

1 \_\_\_\_\_  
 1 All source and calculated numbers shall be rounded as required in the ANS  
 Agreement.

1	01/23/96	\$17.10	\$17.16	\$17.150	\$17.13
2	01/24/96	\$17.35	\$17.41	\$17.380	\$17.38
3	01/25/96	\$16.76	\$16.81	\$17.785	\$16.78
4	01/26/96	\$16.43	\$16.53	\$17.480	\$16.48
5	01/29/96	\$16.16	\$16.24	\$16.200	\$16.20
6	01/30/96	\$16.30	\$16.38	\$16.340	\$16.34
7	01/31/96	\$16.46	\$16.56	\$16.510	\$16.51

8 Monthly Average calculated from ANSWC Daily

9 Average (After Rounding) = \$17.2271 per barrel

10 ANS West Coast spot price for the January 1996

11 month of production = \$17.23 per barrel

12 (2) The inflation factor shall be calculated as follows: Assume  
13 that by April 30, 1996, the U.S. Department of Labor reports a PPI for  
14 December 1995 as 126.2. Assume that by April 30, 1998, the PPI for  
15 December 1997 is 134.2. The inflation factor for 1998 is calculated according  
16 to the following formula:

17 Inflation Factor for May 1, 1998, through April 30, 1999

18 =  $[(\text{PPI December of the previous year} \div \text{PPI December 1995}) - 1] \times 0.5$

19 =  $[(134.2 \div 126.2) - 1] \times 0.5 = 0.0317 = 3.17 \text{ percent}$

20 (3) The trigger price for May 1, 1998, through April 30, 1999,  
21 is calculated by adjusting \$17.35 per barrel by the inflation factor as follows:

22 Trigger price for the current year = \$17.35 per barrel  $\times (1 + \text{inflation factor})$

23 = \$17.35 per barrel  $\times (1 - 3.17 \text{ percent})$

24 = \$17.35  $\times 1.0317$

25 = \$17.90 per barrel

26 (4) Assuming the current month ANSWC spot price is \$21.40,  
27 the supplemental royalty percentage rate is calculated as:

28 Supplemental royalty percentage rate =  $(\text{ANSWC spot price} - \text{trigger price for the}$   
29  $\text{current year}) \times (1.5 \text{ percent per dollar per barrel})$

30 =  $(\$21.40 \text{ per barrel} - \$17.90 \text{ per barrel}) \times 1.5 \text{ percent per dollar per barrel}$

31 =  $(21.40 - 17.90) \times 0.015$

1 = 0.05250 = 5.25 percent

2 (5) The calculation of the supplemental royalty payment for the  
3 current month is the product of the production volume times the royalty value  
4 and the supplemental royalty percentage rate. Assume that 1,550,000 barrels  
5 of oil were produced in the Northstar unit in the current month and that the  
6 royalty value is \$17.71. The supplemental royalty is:

7 Supplemental royalty payment = production volume x royalty value x supplemental  
8 royalty percentage rate

9 = 1,550,000 barrels x \$17.71 per barrel x 5.25 percent

10 = \$1,441,151.25

### 11 EXHIBIT C

#### 12 SANCTION SCHEDULE

13 The Northstar Development Project ("the Project") is described in the  
14 document titled "Northstar Development Project, Conceptual Engineering  
15 Report" dated February 1996. BPXA shall comply with the following sanction  
16 schedule for the Project and shall provide satisfactory evidence of compliance  
17 within fifteen (15) days of the date performance is due under the schedule:

18 BPXA shall receive Project sanction within twelve (12) months after  
19 passage by the legislature of an Act approving the Amendment to the Northstar  
20 Unit Leases for the Project. "Project sanction" means approval in writing by  
21 the highest appropriate authority in BPXA or its parent entity necessary for the  
22 total amount of expenditures required for the Project. Satisfactory evidence of  
23 receipt of sanction shall be tendered to the State in the form of the sanctioning  
24 entity's documents approving the expenditure of funds for the Project. Project  
25 sanction by BPXA or its parent entity shall be irrevocable. If project sanction  
26 is withdrawn for any reason whatsoever, BPXA shall notify the State within  
27 three working days by letter from an authorized officer and BPXA shall be  
28 deemed to have failed to comply with this schedule.

29 (c) Notwithstanding any other provision of law, the "Amendment to the Northstar Unit  
30 Leases Between the State of Alaska and BP Exploration (Alaska) Inc." as described in (b) of  
31 this section, if voluntarily agreed to by the commissioner of natural resources and BP

1 Exploration (Alaska) Inc., is approved and ratified.

2 \* Sec. 4. This Act takes effect on the first day following delivery of a letter from the  
3 commissioner of natural resources to the revisor of statutes, with copies to the president of the  
4 senate and the speaker of the house of representatives, confirming that BP Exploration  
5 (Alaska) Inc. or its parent entity has made an irrevocable commitment of full funding  
6 (projection sanction) to develop the Northstar Oil Field.

A M E N D M E N T

OFFERED IN THE HOUSE

BY REPRESENTATIVE GREEN

TO: HB 548

1 Page 1, line 5:

2 Delete all material and insert:

3 **\*\* Section 1. LEGISLATIVE FINDINGS AND INTENT. (a) The legislature finds that"**

4 Page 2, lines 7 - 10:

5 Delete all material and insert:

6 "(7) the development of the Northstar Unit leases will provide additional  
7 revenue to the state;"

8 Renumber the following paragraphs accordingly.

9 Page 2, following line 15:

10 Insert new subsections to read:

11 "(b) With respect to the effect of the effort to secure earlier development of the leases  
12 on employment opportunities for state residents and on the state's economy, the legislature  
13 finds that

14 (1) paragraph 41 of the 1980 lease and paragraph 31 of the 1983 lease are  
15 to be amended; under each of the proposed amendments,

16 (A) the lessee, BP Exploration (Alaska) Inc., undertakes

17 (i) to use its best efforts to advertise for, recruit, and employ  
18 qualified residents of the state;

19 (ii) to contract with existing licensed Alaska firms to fabricate  
20 the modules to develop the Northstar Unit leases within the state and, in  
21 contracting with those firms, to encourage its contractors to employ and, when  
22 necessary, train existing state residents;

1 (iii) to enter into contracts with Alaska-licensed vendors,  
2 contractors, and suppliers for the provision of supplies and services; and

3 (B) several state agencies with responsibility for improving the  
4 employment opportunities of state residents, including training, commit to efforts to  
5 supplement and support the lessee's undertakings;

6 (2) the lessee, BP Exploration (Alaska) Inc., has made significant investments  
7 in the state, is ranked as one of the state's largest private sector employers, and regularly  
8 enters into contracts to obtain support services; consequently, the lessee's fulfillment of the  
9 undertakings described in (1) of this subsection should materially contribute to existing  
10 resident workforce employment opportunities and to the state's economic stability;

11 (3) a good faith effort by the lessee, BP Exploration (Alaska) Inc., and the  
12 state agencies to fulfill the undertakings described in (1) of this subsection should ensure that,  
13 under the amended leases, benefits will accrue directly and immediately to the people of the  
14 state; and

15 (4) the mutual commitments made by the parties to the lease in these  
16 amendments to secure to state residents and businesses the advantages and benefits of both  
17 expanded resident hire opportunities and additional work by in-state businesses are in the best  
18 interests of the people of the state and are considerations of paramount importance to the  
19 legislature in its decision to conditionally approve the proposed amendments of the Northstar  
20 Unit leases.

21 (c) It is the intent of the legislature that the commissioner of natural resources not  
22 exercise authority under sec. 2(b)(1) of this Act to amend the Northstar Unit leases until all  
23 of the mutual representations made by the lessee and the state agencies that are set out in  
24 (b)(1) of this section are substantially complied with."

25 Page 2, lines 23 - 29:

26 Delete all material and insert:

27 "(b) The commissioner of natural resources

28 (1) may amend the Northstar Unit leases described in (a) of this section to the  
29 extent set out in the "First Amendment to the Northstar Unit Leases Between the State of  
30 Alaska and BP Exploration (Alaska) Inc.", dated March 22, 1996;

31 (2) may not exercise the authority granted in (1) of this subsection unless the

1 governor, after being advised by the commissioners of commerce and economic development  
2 and labor, as appropriate, first determines and certifies that

3 (A) the lessee, BP Exploration (Alaska) Inc.,

4 (i) has adopted a program to advertise for, recruit, and employ  
5 qualified residents of the state in the development of these leases and the  
6 governor further concludes that, by implementing that program, the lessee will  
7 use its best efforts to advertise for, recruit, and employ qualified residents of  
8 the state in the development of these leases;

9 (ii) has negotiated contracts with existing licensed Alaska firms  
10 to fabricate the modules necessary to develop the Northstar Unit leases within  
11 the state and the governor concludes that, in contracting with those firms, the  
12 lessee has used its best efforts to encourage its contractors to employ and,  
13 when necessary, train existing state residents; and

14 (iii) has entered into contracts with Alaska-licensed vendors,  
15 contractors, and suppliers for the provision of supplies and services in the  
16 development of these leases and the associated contracts; and

17 (B) the state agencies having specific responsibility for improving the  
18 employment opportunities of state residents, including job service offices for  
19 employment recruitment and state-sponsored or supported programs for training, are  
20 actively supplementing and supporting the lessee's undertakings."

# Calista Corporation

601 W. 5th Avenue, Suite 200 • Anchorage, AK 99501-2225 • (907) 279-5518 Facsimile (907) 272-5060

**Sent Via Facsimile**

*Office of the President*

April 24, 1996

The Honorable Bill Williams  
The Honorable Joe Green  
Co-Chairman  
House Resources Committee  
State Capitol, Room 124  
Juneau, AK 99801-1182

Dear Co-Chairman Green and Williams,

Calista Corporation is in favor of House Bill 548, North Star Oil Field Lease Agreement, with provisions for local and in-state contracting ability. Our state must continue to work toward developing new projects to stabilize the future of our economic health and well being.

Over the lifetime of the lease of Northstar Oil Field, the state must continue to oversee exploration and production costs, and a fair taxation process should be equivalent to Prudhoe Bay exploration and production costs.

We hope this Bill will be an incentive for continued progress by our state to work with the oil companies in other fields on the North Slope.

Sincerely,

CALISTA CORPORATION



Matthew Nicolai  
President

cc: Governor Knowles  
Senator Lynn Hoffman  
Senator Chrysantha Lincoln

Donald W. Ince  
3121 Capstan Dr.  
Anchorage, AK 99516

April 23, 1996

Representative Bill Williams  
State Capitol, Room 128  
Juneau, AK 99801-1182

RE: Northstar Lease Terms

Dear Honorable Bill Williams,

I am writing this letter to voice my opposition to changing the Northstar lease terms as proposed by British Petroleum and Governor Tony Knowles. I have been following closely the developments regarding the Knowles-BP proposal and I am convinced this is a terrible deal for Alaskans. I read in complete disbelief the manner in which Commissioner of Natural Resources John Shively has analyzed this deal. He essentially says we should trust his analysis that this is a good deal for Alaska. Unfortunately, examination of this deal simply does not support his statement.

There are basically three Northstar production scenarios put forth for analysis as summarized in the chart below.

Northstar Oil Production	Earnings for Alaskans (\$ millions)		BP Pays Alaska (\$/barrel)	
	with net profit	without net profit	with net profit	without net profit
Case 1 = 130 million barrels	\$444 MM	\$435 MM	\$3.42	\$3.35
Case 2 = 105 million barrels	\$312 MM	\$340 MM	\$2.97	\$3.24
Case 3 = 180 million barrels	\$934 MM	\$639 MM	\$5.19	\$3.55

In Case 1, if BP believes Northstar will produce 130 million barrels it is not clear why they would lobby so vigorously to change the lease terms. The difference they must pay to Alaska is only \$9 million or 7¢/barrel. In Case 2, where Northstar produces only 105 million barrels, BP should negotiate to keep the net profit sharing provision. They would actually pay \$28 million (27¢/barrel) less in revenues than if net profits were removed. BP obviously does not believe Northstar will produce only 105 million barrels. So, Alaskans must ask why BP is spending so much time, money and effort

to change these lease terms? The answer is clear when Case 3 is examined. BP believes Northstar will produce significantly more oil than 130 million barrels. It is not difficult to understand why BP concludes Northstar will become an over-achiever considering the past forecasts for other Alaska oil fields. Prudhoe Bay reserves have increased 35% from 9.6 billion to 13 billion barrels, BP's Niakuk field has increased 85% from 54 million to 100 million barrels since production began. EP's Endicott field has increased 200% from 300 million barrels in 1987 to 600 million barrels today

BP is fighting hard to negotiate this upside potential away from Alaskans. If they succeed, BP could earn an additional \$295 million profit as shown in Case 3. They could earn even more if Northstar performs like Endicott or Niakuk. If their negotiations fail to remove the net profit sharing provision, they will pay \$1.64/barrel more in revenues to Alaska. This is why BP has attempted to intimidate Alaskans by threatening not to develop Northstar unless we give them our net profit share. When our Senate Resource Committee tried to modify the agreement BP's vice-president, Eric Luttrell said, "BP will not reopen the negotiations and cannot agree to the changes." I would respectfully suggest that Alaskans tell Mr. Luttrell and BP that, "Alaskans will not reopen the negotiations at Northstar and won't agree to any lease term changes because we believe a deal is a deal."

Some legislators and other officials may conclude this upside potential at Northstar is speculative and has no value. Obviously, BP believes exactly the opposite. In fact, the value of this upside is exactly what has motivated BP to seek these negotiations. They are not in business to pay taxes and royalties to Alaska, provide jobs to Alaskans or build production modules here. BP is in the oil business to make money. They are betting Alaska will change the lease terms so they can make more money at Northstar. But, examine their proposal carefully. BP makes no binding commitments to construct modules in Alaska or hire Alaskans. The fifty permanent jobs BP estimates will be created by Northstar development will be needed regardless of what the lease terms are or who develops the field. It is very difficult to recognize anything tangible BP is offering Alaska residents in return for us giving them our net profit share of Northstar's upside potential.

As a co-owner of Northstar oil along with all other Alaskans, I urge you to do the right thing and vote against changing Northstar lease terms.

Very truly yours,

Donald W. Ince  
via fax

9-GH2065\G  
Chenoyeth  
4/25/96

CS FOR HOUSE BILL NO. 548( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY

Offered:  
Referred:

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing the amendment of Northstar Unit oil and gas leases  
2 between the State of Alaska and BP Exploration (Alaska) Inc.; and providing  
3 for an effective date."

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

5 \* Section 1. LEGISLATIVE FINDINGS AND INTENT. (a) The legislature finds that

6 (1) the production of oil and gas from state land is a matter of statewide  
7 interest and effect because it is an important source of revenue to the state and job  
8 opportunities for the people of the state;

9 (2) BP Exploration (Alaska) Inc. holds state oil and gas leases in the Northstar  
10 Unit that include net profit share provisions;

11 (3) unless the net profit share provisions of the Northstar Unit leases are  
12 amended, production of oil and gas from the unit is highly unlikely to begin before the year  
13 2002, if at all;

14 (4) because of the development account provisions of the net profit share

1 leases, the later that these leases are developed, the less "net profits" the state receives;

2 (5) if the net profit share provisions of the Northstar Unit leases are amended,  
3 full production of oil and gas from the unit may begin as early as the year 1999;

4 (6) amending the net profit share provisions of the Northstar Unit leases to  
5 provide for a supplemental royalty will maximize the economic benefits of oil and gas  
6 production to the people of the state by encouraging timely production from the unit;

7 (7) the development of the Northstar Unit will provide additional revenue to  
8 the state;

9 (8) the timely development of the unit may result in increased state revenue  
10 in future lease sales; and

11 (9) the timely development of the unit may result in technological  
12 breakthroughs and other cost savings that may make other development opportunities in  
13 Alaska economically feasible.

14 (b) With respect to the effect of the effort to secure earlier development of the leases  
15 on employment opportunities for state residents and on the state's economy, the legislature  
16 finds that

17 (1) paragraph 41 of the 1980 lease and paragraph 31 of the 1983 lease are to  
18 be amended; under each of the proposed amendments,

19 (A) the lessee, BP Exploration (Alaska) Inc., undertakes

20 (i) to use its best efforts to advertise for, recruit, and employ  
21 qualified residents of the state;

22 (ii) to contract with existing licensed Alaska firms to fabricate  
23 the modules to develop the Northstar Unit leases within the state and, in  
24 contracting with those firms, to encourage its contractors to employ and, when  
25 necessary, train existing state residents;

26 (iii) to enter into contracts with Alaska-licensed vendors,  
27 contractors, and suppliers for the provision of supplies and services; and

28 (B) several state agencies with responsibility for improving the  
29 employment opportunities of state residents, including training, commit to efforts to  
30 supplement and support the lessee's undertakings;

31 (2) the lessee, BP Exploration (Alaska) Inc., has made significant investments

1 in the state, is ranked as one of the state's largest private sector employers, and regularly  
2 enters into contracts to obtain support services; consequently, the lessee's fulfillment of the  
3 undertakings described in (1) of this subsection should materially contribute to existing  
4 resident workforce employment opportunities and to the state's economic stability;

5 (3) a good faith effort by the lessee, BP Exploration (Alaska) Inc., and the state  
6 agencies to fulfill the undertakings described in (1) of this subsection should ensure that, under  
7 the amended leases, benefits will accrue directly and immediately to the people of the state;  
8 and

9 (4) the mutual commitments made by the parties to the lease in these  
10 amendments to secure to state residents and businesses the advantages and benefits of both  
11 expanded resident hire opportunities and additional work by in-state businesses are in the best  
12 interests of the people of the state and are considerations of paramount importance to the  
13 legislature in its decision to conditionally approve the proposed amendments of the Northstar  
14 Unit leases.

15 (c) It is the intent of the legislature that the commissioner of natural resources not  
16 exercise authority under sec. 2(b)(1) of this Act to amend the Northstar Unit leases until all  
17 of the mutual representations made by the lessee and the state agencies that are set out in  
18 (b)(1) of this section are substantially complied with.

19 \* **Sec. 2. AMENDMENT OF LEASES AUTHORIZED.** (a) The State of Alaska and BP  
20 Exploration (Alaska) Inc. are parties to the following leases in the Northstar Unit:

- 21 (1) ADL 312798, effective February 1, 1980;  
22 (2) ADL 312799, effective February 1, 1980;  
23 (3) ADL 312808, effective February 1, 1980;  
24 (4) ADL 312809, effective February 1, 1980; and  
25 (5) ADL 355001, effective August 1, 1983.

26 (b) The commissioner of natural resources

27 (1) may amend the Northstar Unit leases described in (a) of this section to the  
28 extent set out in the "First Amendment to the Northstar Unit Leases Between the State of  
29 Alaska and BP Exploration (Alaska) Inc.", dated March 22, 1996;

30 (2) may not exercise the authority granted in (1) of this subsection unless the  
31 governor, after being advised by the commissioners of commerce and economic development

1 and labor, as appropriate, first determines and certifies that

2 (A) the lessee, BP Exploration (Alaska) Inc.,

3 (i) has adopted a program to advertise for, recruit, and employ  
4 qualified residents of the state in the development of these leases and that, by  
5 implementing that program, the lessee will employ qualified residents of the  
6 state in at least 85 percent of the jobs that are related to the development of the  
7 Northstar Unit leases;

8 (ii) has negotiated contracts to fabricate all modules necessary  
9 to develop the Northstar Unit leases within the state, the contracts were  
10 negotiated only with existing Alaska-licensed firms, and that in contracting  
11 with those firms, the lessee has used its best efforts to require its contractors  
12 to employ and, when necessary, train existing state residents; and

13 (iii) has entered into contracts with Alaska-licensed vendors,  
14 contractors, and suppliers for the provision of supplies and services in the  
15 development of these leases and the associated contracts; and

16 (B) the state agencies having specific responsibility for improving the  
17 employment opportunities of state residents, including job service offices for  
18 employment recruitment and state-sponsored or supported programs for training, are  
19 actively supplementing and supporting the lessee's undertakings.

20 \* Sec. 3. REPORTING PROVISIONS. The lessee, BP Exploration (Alaska) Inc., shall file  
21 with the commissioner of labor at least every six months the reports that the commissioner  
22 of labor determines are necessary to evaluate the lessee's efforts described under  
23 sec. 2(b)(2)(A) of this Act.

24 \* Sec. 4. This Act takes effect immediately under AS 01.10.070(c).